

City of Parma Heights, Ohio

**Basic Financial Statements
For the Year Ended December 31, 2015**



Dave Yost • Auditor of State

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

We have reviewed the *Independent Auditor's Report* of the City of Parma Heights, Cuyahoga County, prepared by Ciuni & Panichi, Inc., for the audit period January 1, 2015 through December 31, 2015. Based upon this review, we have accepted these reports in lieu of the audit required by Section 117.11, Revised Code. The Auditor of State did not audit the accompanying financial statements and, accordingly, we are unable to express, and do not express an opinion on them.

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

A handwritten signature in cursive script that reads "Dave Yost".

Dave Yost
Auditor of State

September 14, 2016

This page intentionally left blank.

City of Parma Heights, Ohio

For the Year Ended December 31, 2015

| Table of Contents | Page |
|---|-------------|
| Independent Auditor’s Report | 1 |
| Management Discussion and Analysis | 3 |
| Basic Financial Statements: | |
| Government-wide Financial Statements: | |
| Statement of Net Position | 15 |
| Statement of Activities | 16 |
| Fund Financial Statements: | |
| Balance Sheet – Governmental Funds | 17 |
| Reconciliation of Total Governmental Fund Balances to Net Position of Governmental Activities | 18 |
| Statement of Revenues, Expenditures and Changes in Fund Balances – Governmental Funds | 19 |
| Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances of Governmental Funds to the Statement of Activities | 20 |
| Statement of Revenues, Expenditures and Changes in Fund Balances – Budget (Non-GAAP Basis) and Actual– General Fund | 21 |
| Statement of Fiduciary Assets and Liabilities – Agency Funds | 22 |
| Notes to the Basic Financial Statements | 23 |
| Supplementary Information: | |
| Schedule of the City's Proportionate Share of the Net Pension Liability: | |
| Ohio Public Employees Retirement System - Traditional Plan..... | 59 |
| Ohio Police and Fire Pension Fund | 60 |
| Schedule of City Contributions: | |
| Ohio Public Employees Retirement System - Traditional Plan..... | 61 |
| Ohio Police and Fire Pension Fund | 62 |
| Independent Auditor’s Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed In Accordance with <i>Government Auditing Standards</i> | 65 |
| Schedule of Findings | 67 |

This page intentionally left blank.

Independent Auditor's Report

Honorable Mayor and
Members of City Council
Parma Heights, Ohio

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the City of Parma Heights, Ohio (the "City"), as of and for the year ended December 31, 2015, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Honorable Mayor and
Members of City Council
Parma Heights, Ohio

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the City, as of December 31, 2015, and the respective changes in financial position and the respective budgetary comparison for the General Fund for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As described in Note 3 to the basic financial statements, during 2015, the City adopted new accounting guidance, Governmental Accounting Standards Board (GASB) Statement No. 68, *Accounting and Financial Reporting for Pensions – an amendment of GASB Statement No. 27*, and GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date – an amendment of GASB Statement No. 68*, and as a result restated their December 31, 2014 net position. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 to 14 and the schedules of the City's proportionate share of the net pension liability and schedules of the City's contributions on pages 59 through 63 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated June 30, 2016, on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control over financial reporting and compliance.

Ciuni + Panichi, Inc.

Cleveland, Ohio
June 30, 2016

CITY OF PARMA HEIGHTS, OHIO
CUYAHOGA COUNTY
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2015
UNAUDITED

Management's discussion and analysis of the City of Parma Heights' financial performance provides an overall review of the City's financial activities for the year ended December 31, 2015. 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 2015 are as follows:

- Total net position increased by \$ 258,681 or 1.7% in 2015. This was comprised of an increase in net investment in capital assets of \$ 266,077 and an increase in unrestricted net position of \$ 254,792 offset by a decrease in restricted net position of \$ 262,188.
- Capital assets, net of depreciation, decreased by \$ 554,306 or 2.0% in 2015. This decrease is the result of depreciation expense and capital asset disposals exceeding the amount of additions to capital assets.
- Current and other assets decreased by \$ 369,030 or 2.7% in 2015. The most notable changes in current and other assets were decreases in due from other governments of \$176,108 and special assessment receivable of \$238,139 which were offset by an increase of \$ 90,852 in taxes receivable.
- Total liabilities decreased by \$ 476,643 or 1.8% in 2015. This decrease was largely due to decreases in current liabilities of \$ 725,851, and long-term debt of \$ 621,079 which were offset by an increase in net pension liability of \$ 870,287.

Using This Financial Report

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

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

Reporting the City of Parma Heights as a Whole

Statement of Net Position and the Statement of Activities

While this document contains information about the funds used by the City to provide services to our residents, the view of the City as a whole considers all financial transactions and measures how the City did financially during fiscal year 2015. The *Statement of Net Position* and the *Statement of Activities* include assets, deferred outflows of resources, liabilities and deferred inflows of resources using the accrual basis of accounting similar to the accounting method used by the private sector. The basis of this accounting takes into account all of the current year's revenues and expenses regardless of when the cash is received or paid.

CITY OF PARMA HEIGHTS, OHIO
CUYAHOGA COUNTY
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2015
UNAUDITED

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

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

- Assets
- Deferred outflows of resources
- Liabilities
- Deferred inflows of resources
- Net position (assets plus deferred outflows of resources minus liabilities minus deferred inflows of resources)
- Program expenses and revenues
- General revenues
- Net position beginning of year and net position end of year

Reporting the City of Parma Heights' Most Significant Funds

Fund Financial Statements

The presentation of the City's major funds begins on page 17. Fund financial reports provide detailed information about the City's major funds based on the restrictions on the use of monies. The City has established many funds, which account for the multitude of services, facilities and infrastructure provided to our residents. However, these fund financial statements focus on the City's most significant funds. In the case of the City of Parma Heights, the major governmental funds are the General Fund, Bond Retirement Fund and Capital Projects Fund.

Governmental Funds

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

CITY OF PARMA HEIGHTS, OHIO
 CUYAHOGA COUNTY
 MANAGEMENT'S DISCUSSION AND ANALYSIS
 FOR THE YEAR ENDED DECEMBER 31, 2015
 UNAUDITED

The City of Parma Heights As A Whole

The Statement of Net Position provides the perspective of the City as a whole. Table 1 provides a summary of the City's net position for 2015 compared to 2014 (as restated).

Table 1
 Total Net Position

| | 2015 | Restated 2014 |
|----------------------------------|----------------------|----------------------|
| Assets | | |
| Current and other assets | \$ 13,261,534 | \$ 13,630,564 |
| Capital assets, net | 27,901,889 | 28,456,195 |
| Total assets | <u>41,163,423</u> | <u>42,086,759</u> |
| Deferred outflows of resources | <u>2,242,653</u> | <u>1,527,651</u> |
| Liabilities | | |
| Current liabilities | 3,490,931 | 4,216,782 |
| Long-term liabilities | | |
| Due within one year | 1,408,731 | 1,494,657 |
| Due in more than one year | | |
| Net pension liability | 16,700,683 | 15,830,396 |
| Other amounts | 3,807,764 | 4,342,917 |
| Total liabilities | <u>25,408,109</u> | <u>25,884,752</u> |
| Deferred inflows of resources | <u>2,445,150</u> | <u>2,435,522</u> |
| Net position | | |
| Net investment in capital assets | 21,542,372 | 21,276,295 |
| Restricted | 3,944,757 | 4,206,945 |
| Unrestricted | (9,934,312) | (10,189,104) |
| Total net position | <u>\$ 15,552,817</u> | <u>\$ 15,294,136</u> |

During 2015, the City adopted GASB Statement 68, "Accounting and Financial Reporting for Pensions – an Amendment of GASB Statement 27," which significantly revises accounting for pension costs and liabilities. For reasons discussed below, many end users of this financial statement will gain a clearer understanding of the City's actual financial condition by adding deferred inflows related to pension and the net pension liability to the reported net position and subtracting deferred outflows related to pension.

CITY OF PARMA HEIGHTS, OHIO
CUYAHOGA COUNTY
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2015
UNAUDITED

Governmental Accounting Standards Board standards are national and apply to all government financial reports prepared in accordance with generally accepted accounting principles. When accounting for pension costs, GASB 27 focused on a funding approach. This approach limited pension costs to contributions annually required by law, which may or may not be sufficient to fully fund each plan's *net pension liability*. GASB 68 takes an earnings approach to pension accounting; however, the nature of Ohio's statewide pension systems and state law governing those systems requires additional explanation in order to properly understand the information presented in these statements.

Under the new standards required by GASB 68, the net pension liability equals the City's proportionate share of each plan's collective:

1. Present value of estimated future pension benefits attributable to active and inactive employees' past service
2. Minus plan assets available to pay these benefits

GASB notes that pension obligations, whether funded or unfunded, are part of the "employment exchange" – that is, the employee is trading his or her labor in exchange for wages, benefits, and the promise of a future pension. GASB noted that the unfunded portion of this pension promise is a present obligation of the government, part of a bargained-for benefit to the employee, and should accordingly be reported by the government as a liability since they received the benefit of the exchange. However, the City is not responsible for certain key factors affecting the balance of this liability. In Ohio, the employee shares the obligation of funding pension benefits with the employer. Both employer and employee contribution rates are capped by State statute. A change in these caps requires action of both Houses of the General Assembly and approval of the Governor. Benefit provisions are also determined by State statute. The employee enters the employment exchange with the knowledge that the employer's promise is limited not by contract but by law. The employer enters the exchange also knowing that there is a specific, legal limit to its contribution to the pension system. In Ohio, there is no legal means to enforce the unfunded liability of the pension system *as against the public employer*. State law operates to mitigate/lessen the moral obligation of the public employer to the employee, because all parties enter the employment exchange with notice as to the law. The pension system is responsible for the administration of the plan.

Most long-term liabilities have set repayment schedules or, in the case of compensated absences (i.e. sick and vacation leave), are satisfied through paid time-off or termination payments. There is no repayment schedule for the net pension liability. As explained above, changes in pension benefits, contribution rates, and return on investments affect the balance of the net pension liability, but are outside the control of the local government. In the event that contributions, investment returns, and other changes are insufficient to keep up with required pension payments, State statute does not assign/identify the responsible party for the unfunded portion. Due to the unique nature of how the net pension liability is satisfied, this liability is separately identified within the long-term liability section of the statement of net position.

In accordance with GASB 68, the City's statements prepared on an accrual basis of accounting include an annual pension expense for their proportionate share of each plan's *change* in net pension liability not accounted for as deferred inflows/outflows.

As a result of implementing GASB 68, the City is reporting a net pension liability and deferred inflows/outflows of resources related to pension on the accrual basis of accounting. This implementation also had the effect of restating net position at December 31, 2014, from \$ 29,628,827 to \$ 15,294,136 for governmental activities.

CITY OF PARMA HEIGHTS, OHIO
CUYAHOGA COUNTY
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2015
UNAUDITED

As noted previously, net position may serve over time as a useful indicator of a government's financial position. For the City of Parma Heights, total assets plus deferred outflows of resources exceeded total liabilities plus deferred inflows of resources by \$ 15,552,817 as of December 31, 2015.

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

Total assets decreased by \$ 923,336 from 2014 to 2015, and the City's total liabilities decreased by \$ 476,643. The decrease in assets is the result of a net decrease to current assets (equity in pooled cash, accounts receivables, due to other governments, inventory, and special assessment receivables) of \$ 369,030 and a net decrease in the additions, deletions, and depreciation expense of capital assets during the year of \$ 554,306.

The decrease in liabilities of \$ 476,643 has occurred due to decreases in accounts payable, due to other governments, notes payable and the paying down of long-term debt. This decrease in liabilities was offset by an increase of \$ 870,287 in net pension liability.

CITY OF PARMA HEIGHTS, OHIO
 CUYAHOGA COUNTY
 MANAGEMENT'S DISCUSSION AND ANALYSIS
 FOR THE YEAR ENDED DECEMBER 31, 2015
 UNAUDITED

In order to further understand what makes up the changes in net position for the current year, the following Table 2 provides further details regarding the results of activities for 2015 and 2014 (as restated.)

Table 2
 Changes in Net Position

| | 2015 | Restated 2014 |
|---|----------------------|----------------------|
| Revenues | | |
| Program revenues | | |
| Charges for services and sales | \$ 3,853,011 | \$ 3,341,962 |
| Operating grants and contributions | 208,798 | 194,723 |
| Capital grants and contributions | 765,852 | 844,013 |
| Total program revenues | <u>4,827,661</u> | <u>4,380,698</u> |
| General revenues | | |
| Property taxes and special assessments | 2,801,366 | 2,830,389 |
| Income taxes | 8,812,874 | 8,410,767 |
| Grants and entitlements, unrestricted | 1,645,958 | 2,770,429 |
| Interest | 30,970 | 12,866 |
| Miscellaneous | 511,059 | (596,758) |
| Total general revenues | <u>13,802,227</u> | <u>13,427,693</u> |
| Total revenues | <u>18,629,888</u> | <u>17,808,391</u> |
| Program expenses | | |
| Security of persons and property | 9,779,485 | 10,364,878 |
| Public health and welfare | 332,919 | 320,189 |
| Leisure time activities | 733,754 | 993,274 |
| Community environment | 2,896,748 | 3,049,400 |
| Basic utility services | 1,091,309 | 1,124,531 |
| Transportation | 2,083,301 | 2,218,501 |
| General government | 2,686,217 | 2,686,087 |
| Interest | 146,382 | 228,186 |
| Total program expenses | <u>19,750,115</u> | <u>20,985,046</u> |
| Extraordinary item - arson claim | 1,378,908 | - |
| Increase (Decrease) in net position | 258,681 | (3,176,655) |
| Net position at beginning of year, restated | 15,294,136 | N/A |
| Net position at end of year | <u>\$ 15,552,817</u> | <u>\$ 15,294,136</u> |

CITY OF PARMA HEIGHTS, OHIO
 CUYAHOGA COUNTY
 MANAGEMENT'S DISCUSSION AND ANALYSIS
 FOR THE YEAR ENDED DECEMBER 31, 2015
 UNAUDITED

The information necessary to restate the 2014 beginning balances and the 2014 pension expense amounts for the effects of the initial implementation of GASB 68 is not available. Therefore, 2014 functional expenses still include pension expense of \$ 1,495,705 computed under GASB 27. GASB 27 required recognizing pension expense equal to the contractually required contributions to the plan. Under GASB 68, pension expense represents additional amounts earned, adjusted by deferred inflows/outflows. The contractually required contribution is no longer a component of pension expense. Under GASB 68, the 2015 statements report pension expense of 1,670,949. Consequently, in order to compare 2015 total program expenses to 2014, the following adjustments are needed:

| | <u>Governmental Activities</u> |
|---|------------------------------------|
| Total 2015 program expenses under GASB 68 | \$ 19,750,115 |
| Pension expense under GASB 68 | (1,670,949) |
| 2015 contractually required contribution | <u>1,459,111</u> |
| Adjusted 2015 program expense | 19,538,277 |
| Total 2014 program expenses under GASB 27 | <u>20,985,046</u> |
| Decrease in program expenses not related to pension | <u><u>\$ (1,446,769)</u></u> |

CITY OF PARMA HEIGHTS, OHIO
 CUYAHOGA COUNTY
 MANAGEMENT'S DISCUSSION AND ANALYSIS
 FOR THE YEAR ENDED DECEMBER 31, 2015
 UNAUDITED

Governmental Activities

Several revenue sources fund our governmental activities, with property tax and income tax usually being the largest contributors. However, in 2015, the City's largest contributor was municipal income tax with 47.1% of total revenue and program revenue was the second largest with 25.8%. Property taxes were 15.0% and grants and entitlements, unrestricted in general revenue, totaling \$ 1,645,958 accounts for 8.8% of total governmental activity revenue. These unrestricted grants and entitlements are comprised of distributions from the State and County.

Security of persons and property, including our police and fire departments, accounted for \$ 9,779,485, which is 49.5% of total governmental activity expenses. General government expenses, including the executive, legislative and administrative functions of our City government activities accounted for \$ 2,686,217 or 13.6%. The remaining 36.9% of the governmental activity expense was divided between the remaining six areas of functional expense: public health and welfare, leisure time activities, community environment, basic utility services, transportation and interest.

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

**Table 3
 Governmental Activities**

| Program expenses | Total Cost | Net Expense |
|----------------------------------|----------------------|------------------------|
| Security of persons and property | \$ 9,779,485 | \$ (8,200,784) |
| Public health and welfare | 332,919 | (189,558) |
| Leisure time activities | 733,754 | (459,284) |
| Community environment | 2,896,748 | (2,654,105) |
| Basic utility services | 1,091,309 | (702,923) |
| Transportation | 2,083,301 | (423,730) |
| General government | 2,686,217 | (2,145,688) |
| Interest | 146,382 | (146,382) |
| Total cost of services | <u>\$ 19,750,115</u> | <u>\$ (14,922,454)</u> |

Charges for services, operating grants and contributions, and capital grants and contributions all reduce the governmental activity expenses. For 2015, there was a difference of \$ 4,827,661 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 \$ 1,578,701 primarily through charges for services and sales consisting of Mayor's Court fines and costs, Parma Municipal Court fines and costs reflecting Parma Heights' cases heard at the municipal court, fines generated through traffic camera enforcement, revenue from assets confiscated as part of law enforcement investigations and various operating grants and fees charged for ambulance services.
- Leisure time activities expenses were reduced by \$ 274,470 primarily through charges for services and sales and donations for participation in parks, recreation, and senior programs.

CITY OF PARMA HEIGHTS, OHIO
CUYAHOGA COUNTY

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2015
UNAUDITED

- Community environment expenses were reduced by \$ 242,643 through program revenue which consists of building department permit fees, commercial license fees, and grants for public environmental improvement projects.
- Public health and welfare expenses were reduced by \$ 143,361 of program revenues derived from miscellaneous grants utilized primarily for senior citizen programming, equipment acquisition and services.
- Basic utility services were reduced by \$ 388,386 a grant received for improving storm water drainage along street right of ways.
- Transportation services were reduced by \$ 1,659,571 in charges for services for gasoline usage taxes, motor vehicle licensing fees, and various state and county grants for road re-construction, sanitary and storm sewer replacement.
- General government expenses were reduced by \$ 540,529 in charges for services for cable franchise fee and communication tower site lease payments, miscellaneous user fees, and receipt of a recycling grant.

Financial Analysis of the Government's Funds

Information about the City's governmental funds begins on page 17. These funds are accounted for by using the modified accrual basis of accounting. All governmental funds had revenues plus other financing sources of \$ 19,767,249 and expenditures plus other financing uses of \$ 20,664,349. The most significant fund is the General Fund, which had a fund balance at year-end of \$ 934,013. General Fund expenditures plus other financing uses exceed revenue plus other financing sources by \$ 532,017.

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 2015 to reflect changes in circumstances against budgeted estimates. All recommendations for budget amendments are initially presented to the Finance Committee of Council for review before being presented to the full City Council. The whole Council then enacts the budgetary changes by adopting an Amended Appropriations Ordinance. The General Fund supports many of the City's major activities or services, such as police and fire departments, public service department, as well as the legislative and executive activities. The General Fund is monitored closely, looking for possible revenue shortfalls or overspending by individual departments.

The original budgeted revenues for the General Fund were \$ 14,508,860, as certified to the County Budget Commission in January 2015. The final budgeted revenue amount was \$ 15,059,461, as certified to the County Budget Commission in December 2015. The increase in budgeted revenues of \$ 550,601 was derived primarily from increases in the following revenue categories: an increase of \$ 86,999 in property taxes, \$ 13,000 in local government fund revenues, an increase of \$ 237,000 in income tax revenues, an increase of \$105,000 in ambulance fees posted to the General Fund, an increase of \$ 150,000 in insurance reimbursement revenues, an increase of \$ 50,000 in traffic/speed enforcement camera fines, and an increase of \$ 35,000 in estate tax revenues. These budgetary revenue increases were offset by the following decreases in budgeted revenues: a decrease of \$ 69,250 in intergovernmental grant revenues, a decrease of \$49,000 in building permit/commercial license revenues, a decrease of \$ 26,350 in refund and reimbursement revenues, and a decrease of \$11,500 in cellular communication tower rental revenue, and a decrease of \$ 10,000 in sanitary sewer expense reimbursements. The City collected slightly over 100% of its budgeted revenues in 2015.

CITY OF PARMA HEIGHTS, OHIO
 CUYAHOGA COUNTY
 MANAGEMENT'S DISCUSSION AND ANALYSIS
 FOR THE YEAR ENDED DECEMBER 31, 2015
 UNAUDITED

The original appropriations or expenditure estimates, for the General Fund was \$ 14,730,207. The final appropriation total was \$ 15,180,132. The increase of \$ 449,925 was primarily due to an increase of \$ 313,225 in general government expense (of which approximately \$ 125,000 is attributable to one-time expenses related to a fire in a City building the rest was covered by insurance see Note 19), an increase in security of persons and property of \$ 193,600, and an increase of \$ 9,000 in leisure time activities. These increases were offset by a decrease of \$ 25,900 in public health and welfare expense and a decrease of \$ 40,000 in public service department expense. The actual expenditures for 2015 were less than the final budgeted amounts by \$ 176,799; equating to a spend rate of 98.9% of budget.

Capital Assets and Debt Administration

Capital Assets

Table 4
 Capital Assets
 (Net of Depreciation)

| | 2015 | 2014 |
|-----------------------------------|---------------|---------------|
| Land | \$ 1,421,777 | \$ 1,421,777 |
| Construction in process | 822,079 | 104,919 |
| Buildings and improvements | 3,427,302 | 2,398,737 |
| Machinery, equipment and vehicles | 2,079,793 | 2,514,443 |
| Infrastructure | 20,150,938 | 22,016,319 |
| | \$ 27,901,889 | \$ 28,456,195 |

The City's total capital assets for governmental activities decreased in 2015 by \$ 554,306. The majority of this decrease was from depreciation expense exceeding the amount of capital assets added during 2015. See Note 8 for additional detailed information on capital assets.

Debt

As of December 31, 2015, the City of Parma Heights had \$ 3,839,517 in long-term debt obligations excluding net pension liability and compensated absences, comprised as shown below. Payments due within one year total \$ 1,408,731.

Table 5
 Long-Term Debt

| | 2015 | 2014 |
|---------------------------|--------------|--------------|
| Loans payable | \$ 310,042 | \$ 373,580 |
| Bond anticipation note | 700,000 | 700,000 |
| Bonds payable | | |
| General obligation bonds | 2,507,000 | 2,988,000 |
| Special assessment bonds | 99,064 | 155,941 |
| Capital lease obligations | 223,411 | 342,379 |
| | \$ 3,839,517 | \$ 4,559,900 |

CITY OF PARMA HEIGHTS, OHIO
CUYAHOGA COUNTY
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2015
UNAUDITED

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

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

Loans payable consist of loans with the Ohio Public Works Commission (OPWC). 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.

Capital lease obligations consist of the lease-purchase of police cruisers, firefighter protective gear, curbside recycle truck, a street sweeper/vac-all, a bus used to transport senior citizens and police equipment. The curbside recycling truck will be repaid in 2018. The police equipment leased in 2009 was repaid in 2015. Police vehicles and equipment leased in 2013 was repaid in 2015. The fire protective bunker gear leased in 2013 will be repaid in 2017. The police vehicles and equipment leased in 2014 will be repaid in 2016. The vehicle leased in 2015 will be repaid in 2018.

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

Current Financial Outlook

The City of Parma Heights remains committed to a "store by store, block by block, street by street" approach to economic re-development. This philosophy recognizes the fact that the City is virtually 100% built-out; and that re-development of the existing tax base is vital to counteracting the ongoing state funding cutbacks and agonizingly slow regional economic recovery. Administratively, the goal continues to be managing what can be controlled locally; both through conservative budgeting, and ongoing attempts to expand revenue sources through economic development and grantsmanship endeavors

While doing more with less continues to be our challenge; it has also become a lens through which opportunity is envisioned. Focusing on innovative solutions, such as shared services opportunities with neighboring communities has become an area of increased activity. In October of 2015, the City joined the Parma Regional Dispatch Center, a three city regional dispatch center, for police, fire and emergency rescue dispatch services. This regional center is expected to expand to a fourth City in 2016; and has provided the opportunity to improve safety response services without an expansion of our budget.

Grant funding continues to be a viable source of funding both capital improvements, as well as development/redevelopment planning efforts. A major redevelopment planning study, funded by a NOACA grant, with the goal of recommending concepts to revitalize the City's primary commercial corridor, will conclude in 2016. Additional grant opportunities are anticipated to bring some or all of these exciting recommendations to completion in the years to come. During 2015, the City received a grant from the Cuyahoga Planning Commission to update the City's Master Plan, which provides guidance on land usage and development in the City of Parma Heights and will coordinate with the findings in the NOACA funded study. A Community Development Block Grant was also received in 2015 to fund the restoration of many of the handicap ramps at intersections along Pearl Road, the City's main economic corridor.

CITY OF PARMA HEIGHTS, OHIO
CUYAHOGA COUNTY
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2015
UNAUDITED

Emphasis continues to be placed on persistent economic development efforts to encourage and facilitate market decisions, which while beyond our immediate control, are certainly within our scope of local influence. Efforts are ongoing to seek the development of a twenty acre parcel of undeveloped land. Critical to this development goal and other efforts to encourage revitalization of our aging property tax base and encourage business growth, is the adoption of our community reinvestment area legislation. This legislation establishes the entire City as a community reinvestment area; which provides an effective economic development tool to encourage re-development and improvements to both residential and commercial properties, through tax exemption on the improvements made to a property. In addition, the City has created the Parma Heights Community Improvement Corporation as another tool to promote economic development within the City.

During 2015, the City continued to promote its participation in the Heritage Home Program; a regional program designed to provide free home renovation technical assistance and low interest home renovation loans to owners of homes that are fifty years of age or older. This program in concert with our ongoing property code enforcement program is viewed to be an important tool in preserving the housing stock and tax base of our city; with more than 50% of our homes exceeding the fifty year age requirement. In addition, the City continues to actively promote the Storefront Renovation Program operated by the Cuyahoga County Department of Development; which offers rebates on the cost of exterior renovations to correct code violations and to update building facades. Each of these City efforts are designed to promote and enhance the viability of the City's business community and residential neighborhoods.

The City continues to support local merchants with its Shop Parma Heights Program which offers on-line access to our commercial entities through the City's website; as well as holding periodic meetings with our local business community members, in an effort to promote our common goal ... the economic vitality of the City of Parma Heights.

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

Contacting the City's Finance Department

This financial report is designed to provide our residents, taxpayers, creditors and investors with a general overview of the City's finances and show the City's accountability for all monies it receives, spends or invest. If you have any questions about the report or need additional financial information contact the Finance Director, City of Parma Heights, 6281 Pearl Road, Parma Heights, Ohio 44130, (telephone (440) 884-9600 x5621).

CITY OF PARMA HEIGHTS, OHIO
CUYAHOGA COUNTY

STATEMENT OF NET POSITION

DECEMBER 31, 2015

| | Governmental Activities |
|--|----------------------------|
| Assets | |
| Equity in pooled cash and cash equivalents | \$ 1,596,810 |
| Accounts receivable | 109,129 |
| Due from other governments | 973,101 |
| Inventories and supplies | 106,203 |
| Prepaid items | 18,701 |
| Taxes receivable | 8,075,258 |
| Special assessments receivable | 2,382,332 |
| Capital assets | |
| Nondepreciable capital assets | 2,243,856 |
| Depreciable capital assets, net | 25,658,033 |
| Total assets | <u>41,163,423</u> |
| Deferred outflow s of resources | |
| Deferred charges on advance refunding | 25,717 |
| Pension | 2,216,936 |
| Total deferred outflow s of resources | <u>2,242,653</u> |
| Liabilities | |
| Accounts and contracts payable | 177,036 |
| Claims payable | 183,183 |
| Accrued salaries, wages and benefits | 179,414 |
| Accrued interest payable | 33,014 |
| Due to other governments | 398,284 |
| Notes payable | 2,520,000 |
| Long-term liabilities | |
| Due within one year | 1,408,731 |
| Due in more than one year | |
| Net pension liability | 16,700,683 |
| Other amounts | 3,807,764 |
| Total liabilities | <u>25,408,109</u> |
| Deferred inflow s of resources | |
| Property taxes | 2,382,369 |
| Pension | 62,781 |
| Total deferred inflow s of resources | <u>2,445,150</u> |
| Net position | |
| Net investment in capital assets | 21,542,372 |
| Restricted for: | |
| Debt service | 2,949,517 |
| Capital projects | 130,281 |
| Highw ay and streets | 602,863 |
| Public safety | 187,961 |
| Recreation | 68,366 |
| Other purposes | 5,769 |
| Unrestricted | (9,934,312) |
| Total net position | <u>\$ 15,552,817</u> |

See the accompanying notes to the basic financial statements.

CITY OF PARMA HEIGHTS, OHIO
 CUYAHOGA COUNTY
 STATEMENT OF ACTIVITIES
 FOR THE YEAR ENDED DECEMBER 31, 2015

| | Expenses | Program Revenues | | | Net (Expense) Revenue and Changes in Net Position |
|----------------------------------|----------------------|--------------------------------------|--|--|--|
| | | Charges for Services and Sales | Operating Grants and Contributions | Capital Grants and Contributions | |
| Governmental activities | | | | | |
| Security of persons and property | \$ 9,779,485 | \$ 1,571,077 | \$ 7,624 | \$ - | \$ (8,200,784) |
| Public health and welfare | 332,919 | - | 143,361 | - | (189,558) |
| Leisure time activities | 733,754 | 221,550 | 52,920 | - | (459,284) |
| Community environment | 2,896,748 | 242,643 | - | - | (2,654,105) |
| Basic utility services | 1,091,309 | 361,298 | - | 27,088 | (702,923) |
| Transportation | 2,083,301 | 920,807 | - | 738,764 | (423,730) |
| General government | 2,686,217 | 535,636 | 4,893 | - | (2,145,688) |
| Interest | 146,382 | - | - | - | (146,382) |
| Total governmental activities | <u>\$ 19,750,115</u> | <u>\$ 3,853,011</u> | <u>\$ 208,798</u> | <u>\$ 765,852</u> | <u>(14,922,454)</u> |

General revenues

| | |
|---|----------------------|
| Property taxes and special assessments levied for: | |
| General purpose | 1,835,341 |
| Other purposes | 296,485 |
| Debt service | 534,771 |
| Capital improvements | 134,769 |
| Municipal income taxes levied for: | |
| General purposes | 8,812,874 |
| Grants and entitlements not restricted to specific purposes | 1,645,958 |
| Interest | 30,970 |
| Miscellaneous | 511,059 |
| Extraordinary item - gain on arson claim | 1,378,908 |
| Total general revenues and extraordinary item | <u>15,181,135</u> |
| Change in net position | 258,681 |
| Net position at beginning of year, restated | 15,294,136 |
| Net position at end of year | <u>\$ 15,552,817</u> |

See the accompanying notes to the basic financial statements.

CITY OF PARMA HEIGHTS, OHIO
 CUYAHOGA COUNTY
 BALANCE SHEET – GOVERNMENTAL FUNDS
 DECEMBER 31, 2015

| | General Fund | Bond Retirement Fund | Capital Projects Fund | Other Governmental Funds | Total Governmental Funds |
|--|---------------------|----------------------------|-----------------------------|--------------------------------|--------------------------------|
| Assets | | | | | |
| Equity in pooled cash and cash equivalents | \$ 877,192 | \$ 391,301 | \$ 27 | \$ 328,290 | \$ 1,596,810 |
| Taxes receivable | 6,928,802 | 663,737 | - | 482,719 | 8,075,258 |
| Special assessments receivable | - | 2,382,332 | - | - | 2,382,332 |
| Due from other governments | 376,468 | 46,217 | - | 550,416 | 973,101 |
| Accounts receivable | 107,191 | - | - | 1,938 | 109,129 |
| Interfund receivable | - | 1,191 | - | - | 1,191 |
| Inventories and supplies | 28,839 | - | - | 77,364 | 106,203 |
| Prepaid items | 15,616 | - | - | 3,085 | 18,701 |
| Total assets | \$ 8,334,108 | \$ 3,484,778 | \$ 27 | \$ 1,443,812 | \$ 13,262,725 |
| Liabilities, deferred inflow s of resources and fund balances | | | | | |
| Liabilities | | | | | |
| Accounts and contracts payable | \$ 134,831 | \$ - | \$ 5,417 | \$ 36,788 | \$ 177,036 |
| Claims payable | 183,183 | - | - | - | 183,183 |
| Accrued salaries, wages and benefits | 178,223 | - | - | 1,191 | 179,414 |
| Accrued interest payable | - | - | 16,172 | - | 16,172 |
| Due to other governments | 394,466 | - | - | 3,818 | 398,284 |
| Interfund payable | - | - | 1,191 | - | 1,191 |
| Note payable | - | - | 2,520,000 | - | 2,520,000 |
| Total liabilities | 890,703 | - | 2,542,780 | 41,797 | 3,475,280 |
| Deferred inflow s of resources | | | | | |
| Property Taxes | 1,479,709 | 521,961 | - | 380,699 | 2,382,369 |
| Unavailable revenue - delinquent property taxes | 224,822 | 79,776 | - | 58,020 | 362,618 |
| Unavailable revenue - municipal income taxes | 4,367,563 | - | - | - | 4,367,563 |
| Unavailable revenue - other | 437,298 | 2,428,548 | - | 480,238 | 3,346,084 |
| Total deferred inflow s of resources | 6,509,392 | 3,030,285 | - | 918,957 | 10,458,634 |
| Fund balances | | | | | |
| Nonspendable | 44,455 | - | - | 80,449 | 124,904 |
| Restricted | 3,657 | 454,493 | - | 402,609 | 860,759 |
| Committed | 56,991 | - | - | - | 56,991 |
| Assigned | 501,973 | - | - | - | 501,973 |
| Unassigned (deficit) | 326,937 | - | (2,542,753) | - | (2,215,816) |
| Total fund balances (deficit) | 934,013 | 454,493 | (2,542,753) | 483,058 | (671,189) |
| Total liabilities, deferred inflow s of resources and fund balances | \$ 8,334,108 | \$ 3,484,778 | \$ 27 | \$ 1,443,812 | \$ 13,262,725 |

See the accompanying notes to the basic financial statements.

CITY OF PARMA HEIGHTS, OHIO
 CUYAHOGA COUNTY
 RECONCILIATION OF TOTAL GOVERNMENTAL FUND BALANCES TO
 NET POSITION OF GOVERNMENTAL ACTIVITIES
 DECEMBER 31, 2015

| | | |
|---|--------------|---------------|
| Total governmental fund balances | | \$ (671,189) |
| Amount reported for governmental activities in the statement of net position are different because: | | |
| Capital assets used in governmental activities are not financial resources and therefore not reported in the funds. | | 27,901,889 |
| Other long-term assets are not available to pay for current period expenditures and therefore are unearned in the funds: | | |
| Property and other local taxes | \$ 362,618 | |
| Municipal income taxes | 4,367,563 | |
| Intergovernmental | 908,782 | |
| Special assessments | 2,382,332 | |
| Miscellaneous | 54,970 | |
| | | 8,076,265 |
| Deferred outflow s of resources represent deferred charges on refundings, w hich are not reported on in the funds. | | 25,717 |
| In the statement of net position, interest is accrued on outstanding long-term obligations, w hereas in governmental funds, an interest expenditure is reported w hen due. | | (16,842) |
| The net pension liability is not due and payable in the current period; therefore, the liability and related deferred inflow s/outflow s of resources are not reported in governmental funds. | | |
| Deferred outflow s of resources - pension | 2,216,936 | |
| Net pension liability | (16,700,683) | |
| Deferred inflow s of resources - pension | (62,781) | |
| | | (14,546,528) |
| Long-term liabilities are not due and payable in the current period and therefore are not reported in the funds: | | |
| Loans payable | (310,042) | |
| Note payable | (700,000) | |
| General obligation bonds | (2,507,000) | |
| Special assessment bonds | (99,064) | |
| Capital leases | (223,411) | |
| Compensated absences | (1,376,978) | |
| | | (5,216,495) |
| Net position of governmental activities | | \$ 15,552,817 |

See the accompanying notes to the basic financial statements.

CITY OF PARMA HEIGHTS
 CUYAHOGA COUNTY
 STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
 GOVERNMENTAL FUNDS
 FOR THE YEAR ENDED DECEMBER 31, 2015

| | General Fund | Bond Retirement Fund | Capital Projects Fund | Other Governmental Funds | Total Governmental Funds |
|---|-------------------|----------------------------|-----------------------------|--------------------------------|--------------------------------|
| Revenues | | | | | |
| Property and other local taxes | \$ 1,821,600 | \$ 467,505 | \$ - | \$ 425,886 | \$ 2,714,991 |
| Municipal income taxes | 8,719,195 | - | - | - | 8,719,195 |
| Intergovernmental | 781,819 | 71,425 | 615,852 | 1,129,464 | 2,598,560 |
| Special assessments | - | 281,573 | - | - | 281,573 |
| Charges for services | 2,384,500 | - | - | 202,508 | 2,587,008 |
| Fines, licenses and permits | 917,545 | - | - | 146,186 | 1,063,731 |
| Interest | 2,232 | 14,207 | - | 59 | 16,498 |
| Miscellaneous | 690,371 | - | - | 19,011 | 709,382 |
| Total revenues | 15,317,262 | 834,710 | 615,852 | 1,923,114 | 18,690,938 |
| Expenditures | | | | | |
| Current | | | | | |
| Security of persons and property | 8,718,687 | - | - | 559,695 | 9,278,382 |
| Public health and welfare | 327,372 | - | - | - | 327,372 |
| Leisure time activities | 187,302 | - | - | 365,781 | 553,083 |
| Community environment | 2,896,559 | - | - | - | 2,896,559 |
| Basic utility services | 154,931 | - | - | - | 154,931 |
| Transportation | - | - | - | 915,109 | 915,109 |
| General government | 2,531,097 | - | - | - | 2,531,097 |
| Capital outlay | 1,218,500 | - | 715,431 | 147,822 | 2,081,753 |
| Debt service | | | | | |
| Principal | - | 594,434 | 706,981 | - | 1,301,415 |
| Capital lease | 231,961 | - | - | - | 231,961 |
| Interest and fiscal charges | 10,737 | 121,632 | 9,191 | - | 141,560 |
| Total expenditures | 16,277,146 | 716,066 | 1,431,603 | 1,988,407 | 20,413,222 |
| Excess (deficiency) of revenues over (under) expenditures | (959,884) | 118,644 | (815,751) | (65,293) | (1,722,284) |
| Other financing sources (uses) | | | | | |
| Transfers-in | - | 125,000 | 126,127 | - | 251,127 |
| Transfers-out | - | (126,127) | - | (125,000) | (251,127) |
| Note proceeds | - | - | 700,000 | - | 700,000 |
| Premium on note issuance | - | 12,191 | - | - | 12,191 |
| Capital lease proceeds | 112,993 | - | - | - | 112,993 |
| Total other financing sources (uses) | 112,993 | 11,064 | 826,127 | (125,000) | 825,184 |
| Extraordinary item - arson claim | 1,378,908.00 | - | - | - | 1,378,908 |
| Net change in fund balance | 532,017 | 129,708 | 10,376 | (190,293) | 481,808 |
| Fund balances (deficit), beginning of year | 401,996 | 324,785 | (2,553,129) | 673,351 | (1,152,997) |
| Fund balances (deficit), end of year | \$ 934,013 | \$ 454,493 | \$ (2,542,753) | \$ 483,058 | \$ (671,189) |

See the accompanying notes to the basic financial statements.

CITY OF PARMA HEIGHTS, OHIO
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, 2015

Net change in fund balances - total governmental funds \$ 481,808

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 | \$ 2,289,896 | |
| Depreciation expense | (2,831,423) | |
| | | (541,527) |

Governmental funds only report the disposal of capital assets to the extent proceeds are received from the sale. In the statement of activities, a gain or loss is reported for each disposal. (12,779)

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

| | | |
|--------------------------------|-----------|----------|
| Property and other local taxes | 42,941 | |
| Municipal income taxes | 93,679 | |
| Miscellaneous | 3,949 | |
| Special assessments | (238,139) | |
| Intergovernmental | 22,048 | |
| | | (75,522) |

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

| | | |
|------------------------------|---------|-----------|
| Loan principal paid | 63,538 | |
| Note principal paid | 700,000 | |
| Bond principal paid | 537,877 | |
| Capital lease principal paid | 231,961 | |
| | | 1,533,376 |

The issuance of long-term debt, bonds and capital leases, provide current financial resources to governmental funds but increases long-term liabilities in the statement of net position. (812,993)

In the statement of activities, interest is accrued on outstanding debt, whereas in governmental funds, an interest expenditure is reported when due. (2,540)

Contractually required contributions are reported as expenditures in governmental funds; however, the statement of net position reports these amounts as deferred outflows of resources. 1,459,111

Except for amounts reported as deferred inflows/outflows of resources, changes in the net pension liability are reported as pension expense in the statement of activities (1,670,949)

Some expenses reported in the statement of activities, such as compensated absences do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds. (99,304)

Change in net position of governmental activities \$ 258,681

See the accompanying notes to the basic financial statements.

CITY OF PARMA HEIGHTS, OHIO
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, 2015

| | Budgeted Amounts | | Actual | Variance with Final Budget Positive (Negative) |
|---|-------------------|-------------------|-------------------|---|
| | Original | Final | | |
| Revenues | | | | |
| Property and other local taxes | \$ 1,992,806 | \$ 2,079,805 | \$ 1,832,600 | \$ (247,205) |
| Municipal income taxes | 8,018,330 | 8,315,334 | 8,715,811 | 400,477 |
| Intergovernmental | 900,903 | 934,273 | 979,269 | 44,996 |
| Charges for services | 2,070,046 | 2,146,721 | 2,250,110 | 103,389 |
| Fines, licenses and permits | 878,037 | 910,560 | 954,414 | 43,854 |
| Interest | 1,548 | 1,606 | 1,683 | 77 |
| Miscellaneous | 647,190 | 671,162 | 703,486 | 32,324 |
| Total revenue | 14,508,860 | 15,059,461 | 15,437,373 | 377,912 |
| Expenditures | | | | |
| Current | | | | |
| Security of persons and property | 8,784,875 | 8,978,475 | 8,776,585 | 201,890 |
| Public health and welfare | 365,242 | 339,342 | 332,015 | 7,327 |
| Leisure time activities | 186,047 | 195,047 | 192,285 | 2,762 |
| Community environment | 2,959,064 | 2,929,064 | 2,910,172 | 18,892 |
| Basic utility services | 192,628 | 182,628 | 164,346 | 18,282 |
| General government | 2,242,351 | 2,555,576 | 2,627,930 | (72,354) |
| Total expenditures | 14,730,207 | 15,180,132 | 15,003,333 | 176,799 |
| Excess (deficiency) of revenues over (under) expenditures and other sources (uses) | (221,347) | (120,671) | 434,040 | 554,711 |
| Prior year encumbrances | 17,799 | 17,799 | 17,799 | - |
| Fund balance, at beginning of year | 288,742 | 288,742 | 288,742 | - |
| Fund balance, at end of year | \$ 85,194 | \$ 185,870 | \$ 740,581 | \$ 554,711 |

See the accompanying notes to the basic financial statements.

CITY OF PARMA HEIGHTS, OHIO
CUYAHOGA COUNTY
STATEMENT OF FIDUCIARY ASSETS AND LIABILITIES
AGENCY FUNDS
DECEMBER 31, 2015

| | |
|--|------------------|
| Assets | |
| Equity in pooled cash and cash equivalents | \$ 70,976 |
| Total assets | <u>\$ 70,976</u> |
| | |
| Liabilities | |
| Due to others | \$ 70,976 |
| Total liabilities | <u>\$ 70,976</u> |

See the accompanying notes to the basic financial statements.

CITY OF PARMA HEIGHTS, OHIO
CUYAHOGA COUNTY
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2015

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. DESCRIPTION OF THE CITY AND REPORTING ENTITY

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

Reporting Entity

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

Component units are legally separate organizations for which the City is financially accountable. The City is financially accountable for an organization if the City appoints a voting majority of the organization's governing board and (1) the City is able to significantly influence the programs or services performed or provided by the organization; or (2) the City is legally entitled to or can otherwise access the organization's resources; the City is legally obligated or has otherwise assumed the responsibility to finance the deficits of, or provide financial support to, the organization; or the City is obligated for the debt of the organization. Component units may also include organizations for which the City authorizes the issuance of debt or the levying of taxes, or determines the budget. The CIC is a component unit of the City, however, it has had no activity since its inception and therefore, is not reported in these financial statements.

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

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

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

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

CITY OF PARMA HEIGHTS, OHIO
CUYAHOGA COUNTY
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2015

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

A. DESCRIPTION OF THE CITY AND REPORTING ENTITY (continued)

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

B. BASIS OF PRESENTATION

The City's basic financial statements consist of government-wide statements, including a Statement of Net Position and a Statement of Activities, and fund financial statements which provide a more detailed level of financial information.

Government-wide Financial Statements

The Statement of Net Position and the Statement of Activities display information about the City as a whole. These statements include the financial activities of the primary government, except for fiduciary funds.

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

Fund Financial Statements

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

CITY OF PARMA HEIGHTS, OHIO
CUYAHOGA COUNTY
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2015

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

C. FUND ACCOUNTING

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

Governmental Funds

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

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

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

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

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

Proprietary Funds

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

Fiduciary Funds

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

CITY OF PARMA HEIGHTS, OHIO
CUYAHOGA COUNTY
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2015

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

D. MEASUREMENT FOCUS

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

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

E. BASIS OF ACCOUNTING

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

Revenues – Exchange and Non-exchange Transactions

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

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

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

CITY OF PARMA HEIGHTS, OHIO
CUYAHOGA COUNTY
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2015

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

E. BASIS OF ACCOUNTING (continued)

Deferred Outflows/Inflows of Resources

In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. Deferred outflows of resources represent a consumption of net position that applies to a future period and will not be recognized as an outflow of resources (expense/expenditure) until then. For the City, deferred outflows of resources are reported on the government-wide statement of net position for deferred charges from an advanced refunding of general obligation bonds and pension (See Note 13).

In addition to liabilities, the statement of financial position report a separate section for deferred inflows of resources. Deferred inflows of resources represent an acquisition of net position that applies to a future period and will not be recognized until that time. For the City, deferred inflows of resources include property taxes, pension, and unavailable revenue. Property taxes represent amounts for which there is an enforceable legal claim as of December 31, 2015, but which were levied to finance 2016 operations. These amounts have been recorded as a deferred inflow on both the government-wide statement of net position and governmental fund financial statements. Unavailable revenue is reported only on the governmental funds balance sheet, and represents receivables which will not be collected within the available period. For the City, unavailable revenue includes delinquent property taxes, intergovernmental grants, municipal income taxes and miscellaneous revenues. These amounts are deferred and recognized as an inflow of resources in the period the amounts become available. Deferred inflows of resources related to pension are reported on the government-wide statement of net position. (See Note 13.)

Expenses/Expenditures

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

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

F. BUDGETARY PROCESS

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

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

CITY OF PARMA HEIGHTS, OHIO
 CUYAHOGA COUNTY
 NOTES TO THE BASIC FINANCIAL STATEMENTS
 FOR THE YEAR ENDED DECEMBER 31, 2015

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

F. BUDGETARY PROCESS (continued)

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

G. CASH AND CASH EQUIVALENTS

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

Except for investment contracts and money market investments that had a remaining maturity of one year or less at the time of purchase, investments are reported at fair value, which is based on quoted market prices. Investment contracts and money market investments that had a remaining maturity of one year or less at the time of purchase are reported at cost or amortized cost. The City has invested funds in the State Treasury Asset Reserve of Ohio (STAR Ohio). STAR Ohio is an investment pool managed by the State Treasurer's Office, which allows governments within the state to pool their funds for investment purposes. STAR Ohio is not registered with the SEC as an investment company, but does operate in a manner consistent with Rule 2a7 of the Investment Company Act of 1940. Investments in STAR Ohio are valued at STAR Ohio's share price, which is the price the investment could be sold for on December 31, 2015.

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

| | Actual Interest Credited | Amount Assigned to Other City Funds |
|--------------|--------------------------------|--|
| General Fund | \$ 2,232 | \$ 3,997 |

H. INVENTORIES AND SUPPLIES

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

I. PREPAID ITEMS

Payments made to vendors for services that will benefit periods beyond December 31, 2015 are recorded as prepaid items using the consumption method by recording a current asset for the prepaid amount and reflecting the expense in the year in which it was consumed.

CITY OF PARMA HEIGHTS, OHIO
 CUYAHOGA COUNTY
 NOTES TO THE BASIC FINANCIAL STATEMENTS
 FOR THE YEAR ENDED DECEMBER 31, 2015

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

J. CAPITAL ASSETS

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

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

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

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

K. INTERFUND BALANCES

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

L. COMPENSATED ABSENCES

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

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

CITY OF PARMA HEIGHTS, OHIO
CUYAHOGA COUNTY
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2015

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

M. PENSIONS

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the pension plans and additions to/deductions from their fiduciary net position have been determined on the same basis as they are reported by the pension systems. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. The pension systems report investments at fair value.

N. 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, and are reported as obligations of the funds. However, claims and judgments, compensated absences and net pension liability 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.

O. FUND BALANCE

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

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

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

Enabling legislation authorizes the government to assess, levy, charge, or otherwise mandate payment of resources (from external resource providers) and includes a legally enforceable requirement that those resources be used only for the specific purposes stated in the legislation. Legal enforceability means that a government can be compelled by an external party—such as citizens, public interest groups, or the judiciary to use resources created by enabling legislation only for the purposes specified by the legislation.

CITY OF PARMA HEIGHTS, OHIO
CUYAHOGA COUNTY
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2015

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

O. FUND BALANCE (continued)

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

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

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

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

P. NET POSITION

Net position represents assets plus deferred outflows of resources less liabilities and deferred inflows of resources. Net investment in capital assets consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowing used for the acquisition, construction or improvement of those assets. Restricted net positions are reported when there are limitations imposed on their use either through the enabling legislation adopted by the City or through external restrictions imposed by creditors, grantors or laws or regulations of other governments. The government-wide statement of net position reports \$ 3,944,757 as restricted, of which \$ 2,949,517 is restricted by enabling legislation. Net position restricted for other purposes include the activities for the operation of street construction, maintenance and repair and amounts from federal and state grants.

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

Q. 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.

CITY OF PARMA HEIGHTS, OHIO
 CUYAHOGA COUNTY
 NOTES TO THE BASIC FINANCIAL STATEMENTS
 FOR THE YEAR ENDED DECEMBER 31, 2015

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

R. 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. During 2015, the City had an extraordinary item, see Note 19.

S. 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 2 – BUDGETARY BASIS OF ACCOUNTING

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

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

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

| Net Change in Fund Balance | |
|----------------------------------|--------------|
| | General Fund |
| Budgetary basis | \$ 434,040 |
| Adjustments, increase (decrease) | |
| Revenue accruals | (119,082) |
| Expenditure accruals | 182,910 |
| Encumbrances | 21,596 |
| Funds budgeted separately | 12,553 |
| GAAP basis, as reported | \$ 532,017 |

CITY OF PARMA HEIGHTS, OHIO
 CUYAHOGA COUNTY
 NOTES TO THE BASIC FINANCIAL STATEMENTS
 FOR THE YEAR ENDED DECEMBER 31, 2015

NOTE 3 – CHANGE IN ACCOUNTING PRINCIPLE AND RESTATEMENT OF NET POSITION

For 2015, the City implemented the Governmental Accounting Standards Board (GASB) Statement No. 68, "Accounting and Financial Reporting for Pensions—an amendment of GASB Statement No. 27" and GASB Statement No. 71, "Pension Transition for Contributions Made Subsequent to the Measurement Date—an amendment of GASB Statement No. 68." GASB 68 established standards for measuring and recognizing pension liabilities, deferred outflows of resources, deferred inflows of resources and expense/expenditure. The implementation of this pronouncement had the following effect on net position as reported December 31, 2014:

| | Governmental Activities |
|---|----------------------------|
| Net position December 31, 2014 | \$ 29,628,827 |
| Adjustments: | |
| Net pension liability | (15,830,396) |
| Deferred outflow - payments subsequent to measurement date | 1,495,705 |
| Restated net position December 31, 2014 | \$ 15,294,136 |

Other than employer contributions subsequent to the measurement date, the City made no restatement for deferred inflows/outflows of resources as the information needed to generate these restatements was not available.

CITY OF PARMA HEIGHTS, OHIO
CUYAHOGA COUNTY

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2015

NOTE 4 – FUND BALANCE

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

| Fund balance | General Fund | Debt Service Fund | Capital Projects Fund | Other Governmental Funds | Total |
|---------------------------------|-------------------|-------------------------|-----------------------------|--------------------------------|---------------------|
| Nonspendable | | | | | |
| Prepays | \$ 15,616 | \$ - | \$ - | \$ 3,085 | \$ 18,701 |
| Inventories and supplies | 28,839 | - | - | 77,364 | 106,203 |
| Total nonspendable | 44,455 | - | - | 80,449 | 124,904 |
| Restricted for | | | | | |
| Debt service | - | 454,493 | - | - | 454,493 |
| Capital improvements | - | - | - | 101,646 | 101,646 |
| Highway and streets | - | - | - | 112,468 | 112,468 |
| Public safety | - | - | - | 150,987 | 150,987 |
| Recreation | - | - | - | 31,739 | 31,739 |
| Other purposes | 3,657 | - | - | 5,769 | 9,426 |
| Total restricted | 3,657 | 454,493 | - | 402,609 | 860,759 |
| Committed for | | | | | |
| Ambulance billing | 56,991 | - | - | - | 56,991 |
| Total committed | 56,991 | - | - | - | 56,991 |
| Assigned for | | | | | |
| Encumbrances | 15,615 | - | - | - | 15,615 |
| Subsequent year appropriations. | 486,299 | - | - | - | 486,299 |
| Other purposes | 59 | - | - | - | 59 |
| Total assigned | 501,973 | - | - | - | 501,973 |
| Unassigned (deficit) | 326,937 | - | (2,542,753) | - | (2,215,816) |
| Total fund balance | \$ 934,013 | \$ 454,493 | \$ (2,542,753) | \$ 483,058 | \$ (671,189) |

CITY OF PARMA HEIGHTS, OHIO
CUYAHOGA COUNTY
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2015

NOTE 5 – ACCOUNTABILITY AND COMPLIANCE

At December 31, 2015, the Capital Projects funds had deficit fund balance of \$ 2,542,753. This deficit fund balance is the result of adjustments for accrued liabilities in the fund. The General Fund is liable for any deficit in this fund and provides transfers when cash is needed, not when accruals occur.

NOTE 6 – DEPOSITS AND INVESTMENTS

A. LEGAL REQUIREMENTS

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

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

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

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

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

CITY OF PARMA HEIGHTS, OHIO
 CUYAHOGA COUNTY
 NOTES TO THE BASIC FINANCIAL STATEMENTS
 FOR THE YEAR ENDED DECEMBER 31, 2015

NOTE 6 – DEPOSITS AND INVESTMENTS (continued)

A. LEGAL REQUIREMENTS (continued)

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

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

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

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

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

B. DEPOSITS

Custodial Credit Risk. Custodial credit risk for deposits is the risk that in the event of bank failure, the City will not be able to recover deposits or collateral securities that are in the possession of an outside party. At year end, the carrying amount of the City’s deposits was \$ 1,467,504 and the bank balance was \$ 1,602,934. Of the bank balance, \$ 559,644 is collateralized by federal depository insurance and \$ 1,043,290 was uninsured. Of the remaining balance, \$ 1,043,290 was collateralized with securities held by the pledging institution’s trust department not in the City’s name.

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

C. INVESTMENTS

As of December 31, 2015, the City had the following investments.

| | | |
|-------------------------|------------|------------|
| | Maturities | Fair Value |
| Investment in STAR Ohio | 49.4 days | \$ 199,797 |

CITY OF PARMA HEIGHTS, OHIO
CUYAHOGA COUNTY
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2015

NOTE 6 – DEPOSITS AND INVESTMENTS (continued)

D. INTEREST RATE RISK

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

E. CREDIT RISK

The City follows the Ohio Revised Code that limits its investment choices. As of December 31, 2015, the City's investments in STAR Ohio were rated AAAm by Standard & Poor's. Ohio law requires that STAR Ohio maintain the highest rating provided by at least one nationally recognized standard rating service.

F. CONCENTRATION OF CREDIT RISK

The City places no limit on the amount that may be invested in any one issuer. The City's allocation as of December 31, 2015 was 100 percent invested in STAR Ohio.

NOTE 7 – RECEIVABLES

Receivables at December 31, 2015, consisted primarily of municipal income taxes, property and other taxes, intergovernmental receivables arising from entitlements, shared revenues, special assessments, and miscellaneous accounts receivable.

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

Special assessments expected to be collected in more than one year amount to \$ 2,342,773 in the Bond Retirement Fund. Of the special assessments balance at December 31, 2015, \$ 2,300,482 is in ongoing litigation. The City brought action in Trial Court to receive a first lien security position. The Trial Court ruled against the City. The City has an appeal pending. The City estimates that it will ultimately prevail in its collection efforts, and as such, has not recorded an allowance against this receivable.

A. PROPERTY TAXES

Property taxes include amounts levied against all real, public utility, and tangible personal property located in the City. Property tax revenue received during 2015 for real and public utility property taxes represents collections of the 2014 taxes.

The 2015 real property taxes are levied after October 1, 2015, on the assessed value as of January 1, 2015, the lien date. Assessed values are established by state law at 35 percent of appraised market value. 2015 real property taxes are collected in and intended to finance 2016.

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

CITY OF PARMA HEIGHTS, OHIO
 CUYAHOGA COUNTY
 NOTES TO THE BASIC FINANCIAL STATEMENTS
 FOR THE YEAR ENDED DECEMBER 31, 2015

NOTE 7 – RECEIVABLES (continued)

A. PROPERTY TAXES (continued)

Public utility tangible personal property currently is assessed at varying percentages of true value; public utility real property is assessed at 35 percent of true value. 2015 public utility property taxes became a lien December 31, 2014, are levied after October 1, 2015, and are collected in 2016 with real property taxes.

The full tax rate for all City operations for the year ended December 31, 2015, was \$10.00 per \$1,000 of assessed value. The assessed values of real and tangible personal property upon which 2015 property tax receipts were based are as follows:

| | |
|-----------------------------------|----------------|
| Real property - 2015 | |
| Residential/agricultural | \$ 227,509,600 |
| Other real estate | 74,012,310 |
| Tangible personal property - 2015 | |
| Public utilities | 5,929,320 |
| Total valuation | \$ 307,451,230 |

Property tax receivable represents real and public utility taxes and outstanding delinquencies which are measurable as of December 31, 2015 and for which there is an enforceable legal claim.

B. INCOME TAXES

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

C. DUE FROM OTHER GOVERNMENTS

A summary of due from other governments follows:

| | |
|------------------------|------------|
| Homestead and rollback | \$ 210,073 |
| Gasoline tax | 313,750 |
| Grants | 2,531 |
| Local government | 241,500 |
| Motor vehicle | 67,125 |
| Auto registration | 65,750 |
| Miscellaneous | 72,372 |
| | \$ 973,101 |

CITY OF PARMA HEIGHTS, OHIO
CUYAHOGA COUNTY
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2015

NOTE 8 – CAPITAL ASSETS

Capital asset activity for the year ended December 31, 2015, was as follows:

| | Balance 12/31/14 | Additions | Disposals | Balance 12/31/15 |
|---|----------------------|---------------------|-------------------|----------------------|
| Governmental activities | | | | |
| Nondepreciable capital assets | | | | |
| Land | \$ 1,421,777 | \$ - | \$ - | \$ 1,421,777 |
| Construction in process | 104,919 | 876,315 | 159,155 | 822,079 |
| | <u>1,526,696</u> | <u>876,315</u> | <u>159,155</u> | <u>2,243,856</u> |
| Depreciable capital assets | | | | |
| Buildings and improvements | 10,419,864 | 1,299,924 | 276,651 | 11,443,137 |
| Machinery, equipment and vehicles | 7,973,288 | 33,937 | 184,649 | 7,822,576 |
| Infrastructure | 80,495,045 | 238,875 | 52,494 | 80,681,426 |
| Total capital assets being depreciated | <u>98,888,197</u> | <u>1,572,736</u> | <u>513,794</u> | <u>99,947,139</u> |
| Less accumulated depreciation | | | | |
| Buildings and improvements | 8,021,127 | 271,359 | 276,651 | 8,015,835 |
| Machinery, equipment and vehicles | 5,458,844 | 462,371 | 178,432 | 5,742,783 |
| Infrastructure | 58,478,727 | 2,097,693 | 45,932 | 60,530,488 |
| Total accumulated depreciation | <u>71,958,698</u> | <u>2,831,423</u> | <u>501,015</u> | <u>74,289,106</u> |
| Depreciable capital assets, net of accumulated depreciation | <u>26,929,499</u> | <u>(1,258,687)</u> | <u>12,779</u> | <u>25,658,033</u> |
| Governmental activities capital assets, net | <u>\$ 28,456,195</u> | <u>\$ (382,372)</u> | <u>\$ 171,934</u> | <u>\$ 27,901,889</u> |

Depreciation expense was charged to governmental functions as follows:

| | |
|----------------------------------|---------------------|
| General government | \$ 84,182 |
| Security of persons and property | 356,294 |
| Transportation | 1,270,065 |
| Basic utility services | 935,030 |
| Public health and welfare | 5,947 |
| Leisure time activities | 179,905 |
| Total depreciation expense | <u>\$ 2,831,423</u> |

CITY OF PARMA HEIGHTS, OHIO
 CUYAHOGA COUNTY
 NOTES TO THE BASIC FINANCIAL STATEMENTS
 FOR THE YEAR ENDED DECEMBER 31, 2015

NOTE 9 – NOTE PAYABLES

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

| | <u>Outstanding 12/31/2014</u> | <u>Additions</u> | <u>Reductions</u> | <u>Outstanding 12/31/2015</u> |
|---|-----------------------------------|---------------------|---------------------|-----------------------------------|
| Bond anticipation notes | | | | |
| Street improvement notes, series 2014-2 | | | | |
| Maturity 7-22-15, 1.0% | \$ 2,620,000 | \$ - | \$ 2,620,000 | \$ - |
| Street improvement notes, series 2015-2 | | | | |
| Maturity 7-20-16, 1.00% | - | 2,520,000 | - | 2,520,000 |
| | <u>\$ 2,620,000</u> | <u>\$ 2,520,000</u> | <u>\$ 2,620,000</u> | <u>\$ 2,520,000</u> |

NOTE 10 – LONG-TERM DEBT

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

| | <u>Original Issue Date</u> | <u>Maturity Date</u> | <u>Interest Rate</u> | <u>Original Issue Amount</u> |
|--|--------------------------------|--------------------------|--------------------------|----------------------------------|
| Bond anticipation notes | | | | |
| Street improvement notes | 2015 | 2016 | 1.00% | \$ 700,000 |
| General obligation bonds | | | | |
| Refunding various purpose | 2014 | 2019 | 1.90% | 1,610,000 |
| Refunding recreation facility improvements | 2012 | 2021 | 3.05% | 1,730,000 |
| Special assessment bonds | | | | |
| Street improvements | 1995 | 2015 | 6.25% | 28,513 |
| Street improvements | 1995 | 2015 | 6.20% | 98,963 |
| Street improvements | 1998 | 2017 | 6.25% | 40,008 |
| Street improvements | 1999 | 2019 | 5.75% | 320,000 |
| Ohio Public Works Commission loan | 1999 | 2019 | 0.00% | 356,940 |
| Ohio Public Works Commission loan | 1999 | 2019 | 0.00% | 360,306 |
| Ohio Public Works Commission loan | 2002 | 2022 | 0.00% | 368,333 |
| Ohio Public Works Commission loan | 2002 | 2022 | 0.00% | 185,183 |

CITY OF PARMA HEIGHTS, OHIO
CUYAHOGA COUNTY
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2015

NOTE 10 – LONG-TERM DEBT (continued)

Changes in the City's long-term obligations during 2015 were as follows:

| | Outstanding 12/31/2014 | Additions | Reductions | Outstanding 12/31/2015 | Amount Due In One Year |
|--|---------------------------|---------------------|---------------------|---------------------------|------------------------------|
| Bond anticipation notes: | | | | | |
| Street improvement notes | | | | | |
| Maturity 5-7-15, 1.00% | \$ 700,000 | \$ - | \$ 700,000 | \$ - | \$ - |
| Maturity 5-5-16, 1.00% | - | 700,000 | - | 700,000 | 700,000 |
| | <u>700,000</u> | <u>700,000</u> | <u>700,000</u> | <u>700,000</u> | <u>700,000</u> |
| General obligations bonds: | | | | | |
| Refunding various purpose | 1,597,000 | - | 310,000 | 1,287,000 | 311,000 |
| Refunding recreational facilities improvement | 1,391,000 | - | 171,000 | 1,220,000 | 173,000 |
| | <u>2,988,000</u> | <u>-</u> | <u>481,000</u> | <u>2,507,000</u> | <u>484,000</u> |
| Special assessment bonds: | | | | | |
| Street improvements | 2,849 | - | 2,849 | - | - |
| Street improvements | 9,898 | - | 9,898 | - | - |
| Street improvements | 8,000 | - | 4,000 | 4,000 | 2,000 |
| Street improvements | 135,194 | - | 40,130 | 95,064 | 21,812 |
| | <u>155,941</u> | <u>-</u> | <u>56,877</u> | <u>99,064</u> | <u>23,812</u> |
| Ohio Public Works Commission loans: | | | | | |
| Concrete street reconstruction | 80,314 | - | 17,847 | 62,467 | 17,847 |
| Concrete street reconstruction | 81,070 | - | 18,015 | 63,055 | 18,015 |
| Concrete street reconstruction | 138,122 | - | 18,417 | 119,705 | 18,417 |
| Concrete street reconstruction | 74,074 | - | 9,259 | 64,815 | 9,259 |
| | <u>373,580</u> | <u>-</u> | <u>63,538</u> | <u>310,042</u> | <u>63,538</u> |
| Net pension liability | | | | | |
| OPERS | 3,369,065 | 76,848 | - | 3,445,913 | - |
| OP&F | 12,461,331 | 793,439 | - | 13,254,770 | - |
| Total net pension liability | <u>15,830,396</u> | <u>870,287</u> | <u>-</u> | <u>16,700,683</u> | <u>-</u> |
| Capital lease obligations | <u>342,379</u> | <u>112,993</u> | <u>231,961</u> | <u>223,411</u> | <u>137,381</u> |
| Compensated absences | <u>1,277,674</u> | <u>152,334</u> | <u>53,030</u> | <u>1,376,978</u> | <u>-</u> |
| | <u>\$ 21,667,970</u> | <u>\$ 1,835,614</u> | <u>\$ 1,586,406</u> | <u>\$ 21,917,178</u> | <u>\$ 1,408,731</u> |

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

CITY OF PARMA HEIGHTS, OHIO
CUYAHOGA COUNTY

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2015

NOTE 10 – LONG-TERM DEBT (continued)

The City defeased Series 2001 general obligation bonds in 2012 and Series 2004 various purpose general obligation bonds in 2014 by placing the proceeds of new bonds in an irrevocable trust to provide for all future debt service payments on the old bonds. Accordingly, the trust account assets and liability for the defeased bonds are not included in the City's financial statements. At December 31, 2015, \$ 2,410,000 of bonds outstanding are considered to be defeased.

Debt service requirements to retire bonds payable and loans payable outstanding at December 31, 2015 consisted of:

| Year | Principal | Interest | Total |
|-----------|--------------|------------|--------------|
| 2016 | \$ 1,271,350 | \$ 67,379 | \$ 1,338,729 |
| 2017 | 606,604 | 54,815 | 661,419 |
| 2018 | 613,930 | 41,222 | 655,152 |
| 2019 | 610,406 | 27,501 | 637,907 |
| 2020 | 244,676 | 13,420 | 258,096 |
| 2021-2025 | 269,140 | 6,802 | 275,942 |
| | \$ 3,616,106 | \$ 211,139 | \$ 3,827,245 |

NOTE 11 – CAPITAL LEASE

The City is obligated under certain leases accounted for as capital leases. The leased assets are included in capital assets and the related obligation is included under long-term debt. At December 31, 2015, assets under capital lease totaled \$ 1,108,110 with related accumulated depreciation of \$ 404,545. The leases are in effect through 2018. The following is a schedule of future minimum lease payments under capital lease together with the net present value of the minimum lease payments as of December 31, 2014.

| Year | Amount |
|---|------------|
| 2016 | \$ 143,588 |
| 2017 | 74,396 |
| 2018 | 15,815 |
| Total minimum lease payments | 233,799 |
| Less amount representing interest | 10,388 |
| Net present value of minimum lease payments | \$ 223,411 |

NOTE 12 – INTERFUND BALANCES AND TRANSFERS

During 2015, the City received note proceeds with \$1,191 of the proceeds to be deposited into the Debt Retirement Fund. At December 31, 2015, the Capital Projects Fund shows a due to other funds and the Debt Retirement Fund shows a due from other funds for this amount.

At December 31, 2015, Council authorized the transfers of \$ 125,000 from non-major fund to the Debt Retirement Fund to cover expenditures. In preparing these statements, a GAAP Basis only transfer of \$ 126,127 was made from the Debt Service Fund to properly record note payable in the Capital Projects Fund.

CITY OF PARMA HEIGHTS, OHIO
CUYAHOGA COUNTY
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2015

NOTE 13 – DEFINED BENEFIT PENSION PLANS

A. NET PENSIONS LIABILITY

The net pension liability reported on the statement of net position represents a liability to employees for pensions. Pensions are a component of exchange transactions—between an employer and its employees—of salaries and benefits for employee services. Pensions are provided to an employee—on a deferred-payment basis—as part of the total compensation package offered by an employer for employee services each financial period. The obligation to sacrifice resources for pensions is a present obligation because it was created as a result of employment exchanges that already have occurred.

The net pension liability represents the City's proportionate share of each pension plan's collective actuarial present value of projected benefit payments attributable to past periods of service, net of each pension plan's fiduciary net position. The net pension liability calculation is dependent on critical long-term variables, including estimated average life expectancies, earnings on investments, cost of living adjustments and others. While these estimates use the best information available, unknowable future events require adjusting this estimate annually.

Ohio Revised Code limits the City's obligation for this liability to annually required payments. The City cannot control benefit terms or the manner in which pensions are financed; however, the City does receive the benefit of employees' services in exchange for compensation including pension.

GASB 68 assumes the liability is solely the obligation of the employer, because (1) they benefit from employee services; and (2) State statute requires all funding to come from these employers. All contributions to date have come solely from these employers (which also includes costs paid in the form of withholdings from employees). State statute requires the pension plans to amortize unfunded liabilities within 30 years. If the amortization period exceeds 30 years, each pension plan's board must propose corrective action to the State legislature. Any resulting legislative change to benefits or funding could significantly affect the net pension liability. Resulting adjustments to the net pension liability would be effective when the changes are legally enforceable.

The proportionate share of each plan's unfunded benefits is presented as a long-term *net pension liability* on the accrual basis of accounting. Any liability for the contractually-required pension contribution outstanding at the end of the year is included in *intergovernmental payable* on both the accrual and modified accrual bases of accounting.

B. PLAN DESCRIPTION – OHIO PUBLIC EMPLOYEES RETIREMENT SYSTEM (OPERS)

Plan Description - City employees, other than full-time police and firefighters, participate in the Ohio Public Employees Retirement System (OPERS). OPERS administers three separate pension plans. The traditional pension plan is a cost-sharing, multiple-employer defined benefit pension plan. The member-directed plan is a defined contribution plan and the combined plan is a cost-sharing, multiple-employer defined benefit pension plan with defined contribution features. While members (e.g. City employees) may elect the member-directed plan and the combined plan, substantially all employee members are in OPERS' traditional plan; therefore, the following disclosure focuses on the traditional pension plan.

CITY OF PARMA HEIGHTS, OHIO
 CUYAHOGA COUNTY
 NOTES TO THE BASIC FINANCIAL STATEMENTS
 FOR THE YEAR ENDED DECEMBER 31, 2015

NOTE 13 – DEFINED BENEFIT PENSION PLANS (continued)

B. PLAN DESCRIPTION – OHIO PUBLIC EMPLOYEES RETIREMENT SYSTEM (OPERS) (continued)

OPERS provides retirement, disability, survivor and death benefits, and annual cost of living adjustments to members of the traditional plan. Authority to establish and amend benefits is provided by Chapter 145 of the Ohio Revised Code. OPERS issues a stand-alone financial report that includes financial statements, required supplementary information and detailed information about OPERS' fiduciary net position that may be obtained by visiting <https://www.opers.org/financial/reports.shtml>, by writing to the Ohio Public Employees Retirement System, 277 East Town Street, Columbus, Ohio 43215-4642, or by calling 800-222-7377.

Senate Bill (SB) 343 was enacted into law with an effective date of January 7, 2013. In the legislation, members were categorized into three groups with varying provisions of the law applicable to each group. The following table provides age and service requirements for retirement and the retirement formula applied to final average salary (FAS) for the three member groups under the traditional plan as per the reduced benefits adopted by SB 343 (see OPERS CAFR referenced above for additional information):

| Group A Eligible to retire prior to January 7, 2013 or five years after January 7, 2013 | Group B 20 years of service credit prior to January 7, 2013 or eligible to retire ten years after January 7, 2013 | Group C Members not in other Groups and members hired on or after January 7, 2013 |
|--|--|--|
| State and Local | State and Local | State and Local |
| Age and service requirements: Age 60 with 60 months of service credit or Age 55 with 25 years of service credit | Age and service requirements: Age 60 with 60 months of service credit or Age 55 with 25 years of service credit | Age and service requirements: Age 57 with 25 years of service credit or Age 62 with 5 years of service credit |
| Formula: 2.2% of FAS multiplied by years of service for the first 30 years and 2.5% for service years in excess of 30 | Formula: 2.2% of FAS multiplied by years of service for the first 30 years and 2.5% for service years in excess of 30 | Formula: 2.2% of FAS multiplied by years of service for the first 35 years and 2.5% for service years in excess of 35 |

Final average Salary (FAS) represents the average of the three highest years of earnings over a member's career for Groups A and B. Group C is based on the average of the five highest years of earnings over a member's career.

Members who retire before meeting the age and years of service credit requirement for unreduced benefits receive a percentage reduction in the benefit amount.

When a benefit recipient has received benefits for 12 months, an annual cost of living adjustment (COLA) is provided. This COLA is calculated on the base retirement benefit at the date of retirement and is not compounded. For those retiring prior to January 7, 2013, the COLA will continue to be a 3 percent simple annual COLA. For those retiring subsequent to January 7, 2013, beginning in calendar year 2019, the COLA will be based on the average percentage increase in the Consumer Price Index, capped at 3 percent.

CITY OF PARMA HEIGHTS, OHIO
 CUYAHOGA COUNTY
 NOTES TO THE BASIC FINANCIAL STATEMENTS
 FOR THE YEAR ENDED DECEMBER 31, 2015

NOTE 13 – DEFINED BENEFIT PENSION PLANS (continued)

B. PLAN DESCRIPTION – OHIO PUBLIC EMPLOYEES RETIREMENT SYSTEM (OPERS) (continued)

Funding Policy - The Ohio Revised Code (ORC) provides statutory authority for member and employer contributions as follows:

| | State and Local |
|---|--------------------|
| 2015 Statutory maximum contribution rates | |
| Employer | 14.0% |
| Employee | 10.0% |
| | |
| 2015 Actual contribution rates | |
| Employer | |
| Pension | 12.0% |
| Post-employment health care benefits | 2.0% |
| Total employer | 14.0% |
| | |
| Employee | 10.0% |

Employer contribution rates are actuarially determined and are expressed as a percentage of covered payroll. The City’s contractually required contribution was \$ 388,092 for 2015. Of this amount, \$ 23,772 is reported as an intergovernmental payable.

C. PLAN DESCRIPTION – OHIO POLICE & FIRE PENSION FUND (OP&F)

Plan Description - City full-time police and firefighters participate in Ohio Police and Fire Pension Fund (OP&F), a cost-sharing, multiple-employer defined benefit pension plan administered by OP&F. OP&F provides retirement and disability pension 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 and detailed information about OP&F fiduciary net position. The report that may be obtained by visiting the OP&F website at www.op-f.org or by writing to the Ohio Police and Fire Pension Fund, 140 East Town Street, Columbus, Ohio 43215-5164.

Upon attaining a qualifying age with sufficient years of service, a member of OP&F may retire and receive a lifetime monthly pension. OP&F offers four types of service retirement: normal, service commuted, age/service commuted and actuarially reduced. Each type has different eligibility guidelines and is calculated using the member’s average annual salary. The following discussion of the pension formula relates to normal service retirement.

For members hired after July 1, 2013, the minimum retirement age is 52 for normal service retirement with at least 25 years of service credit. For members hired on or before after July 1, 2013, the minimum retirement age is 48 for normal service retirement with at least 25 years of service credit.

CITY OF PARMA HEIGHTS, OHIO
 CUYAHOGA COUNTY
 NOTES TO THE BASIC FINANCIAL STATEMENTS
 FOR THE YEAR ENDED DECEMBER 31, 2015

NOTE 13 – DEFINED BENEFIT PENSION PLANS (continued)

C. PLAN DESCRIPTION – OHIO POLICE & FIRE PENSION FUND (OP&F) (continued)

The annual pension benefit for normal service retirement is equal to a percentage of the allowable average annual salary. The percentage equals 2.5 percent for each of the first 20 years of service credit, 2.0 percent for each of the next five years of service credit and 1.5 percent for each year of service credit in excess of 25 years. The maximum pension of 72 percent of the allowable average annual salary is paid after 33 years of service credit.

Under normal service retirement, retired members who are at least 55 years old and have been receiving OP&F benefits for at least one year may be eligible for a cost-of-living allowance adjustment. The age 55 provision for receiving a COLA does not apply to those who are receiving a permanent and total disability benefit and statutory survivors.

Members retiring under normal service retirement, with less than 15 years of service credit on July 1, 2013, will receive a COLA equal to either three percent or the percent increase, if any, in the consumer price index (CPI) over the 12-month period ending on September 30 of the immediately preceding year, whichever is less. The COLA amount for members with at least 15 years of service credit as of July 1, 2013 is equal to three percent of their base pension or disability benefit.

Funding Policy - The Ohio Revised Code (ORC) provides statutory authority for member and employer contributions as follows:

| | <u>Police</u> | <u>Firefighters</u> |
|---|---------------|---------------------|
| 2015 Statutory maximum contribution rates | | |
| Employer | 19.50% | 24.00% |
| Employee | | |
| January 1, 2015 through July 1, 2015 | 11.50% | 11.50% |
| July 2, 2015 through December 31, 2015 | 12.25% | 12.25% |
| 2015 Actual contribution rates | | |
| Employer | | |
| Pension | 19.00% | 23.50% |
| Post-employment health care benefits | 0.50% | 0.50% |
| Total employer | <u>19.50%</u> | <u>24.00%</u> |
| Employee | | |
| January 1, 2015 through July 1, 2015 | 11.50% | 11.50% |
| July 2, 2015 through December 31, 2015 | 12.25% | 12.25% |

Employer contribution rates are expressed as a percentage of covered payroll. The City's contractually required contribution to OP&F was \$ 1,071,019 for 2015. Of this amount \$ 86,611 is reported as an intergovernmental payable.

CITY OF PARMA HEIGHTS, OHIO
 CUYAHOGA COUNTY
 NOTES TO THE BASIC FINANCIAL STATEMENTS
 FOR THE YEAR ENDED DECEMBER 31, 2015

NOTE 13 – DEFINED BENEFIT PENSION PLANS (continued)

D. PENSION LIABILITIES, PENSION EXPENSE, AND DEFERRED OUTFLOWS OF RESOURCES AND DEFERRED INFLOWS OF RESOURCES RELATED TO PENSIONS

The net pension liability for OPERS was measured as of December 31, 2014, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. OP&F's total pension liability was measured as of December 31, 2014, and was determined by rolling forward the total pension liability as of January 1, 2014, to December 31, 2014. The City's proportion of the net pension liability was based on the City's share of contributions to the pension plan relative to the contributions of all participating entities. Following is information related to the proportionate share and pension expense:

| | <u>OPERS</u> | <u>OP&F</u> | <u>Total</u> |
|--|--------------|-----------------|---------------|
| Proportionate share of the net pension liability | \$ 3,445,913 | \$ 13,254,770 | \$ 16,700,683 |
| Proportion share of the net pension liability | 0.028582% | 0.255863% | |
| Pension expense | \$ 378,259 | \$ 1,292,690 | \$ 1,670,949 |

At December 31, 2015, the City reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

| | <u>OPERS</u> | <u>OP&F</u> | <u>Total</u> |
|--|-------------------|---------------------|---------------------|
| Deferred outflows of resources | | | |
| Net difference between projected and actual earnings on pension plan investments | \$ 184,023 | \$ 571,268 | \$ 755,291 |
| Net difference between employer contributions and proportionate share of contributions | 2,064 | 470 | 2,534 |
| City contributions subsequent to the measurement date | 388,092 | 1,071,019 | 1,459,111 |
| Total deferred outflows of resources | <u>\$ 574,179</u> | <u>\$ 1,642,757</u> | <u>\$ 2,216,936</u> |
| Deferred inflows of resources | | | |
| Net difference between expected and actual experience | \$ 60,988 | \$ - | \$ 60,988 |
| Net difference between employer contributions and proportionate share of contributions | - | 1,793 | 1,793 |
| Total deferred inflows of resources | <u>\$ 60,988</u> | <u>\$ 1,793</u> | <u>\$ 62,781</u> |

CITY OF PARMA HEIGHTS, OHIO
 CUYAHOGA COUNTY
 NOTES TO THE BASIC FINANCIAL STATEMENTS
 FOR THE YEAR ENDED DECEMBER 31, 2015

NOTE 13 – DEFINED BENEFIT PENSION PLANS (continued)

D. PENSION LIABILITIES, PENSION EXPENSE, AND DEFERRED OUTFLOWS OF RESOURCES AND DEFERRED INFLOWS OF RESOURCES RELATED TO PENSIONS (continued)

\$ 1,459,111 reported as deferred outflows of resources related to pension resulting from City contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ending December 31, 2016. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pension will be recognized in pension expense as follows:

| Year Ending December 31: | OPERS | OP&F | Total |
|-----------------------------|-------------------|-------------------|-------------------|
| 2016 | \$ 18,963 | \$ 142,565 | \$ 161,528 |
| 2017 | 18,963 | 142,565 | 161,528 |
| 2018 | 41,438 | 142,565 | 184,003 |
| 2019 | 45,957 | 142,565 | 188,522 |
| 2020 | (51) | (252) | (303) |
| Thereafter | (171) | (63) | (234) |
| Total | <u>\$ 125,099</u> | <u>\$ 569,945</u> | <u>\$ 695,044</u> |

E. ACTUARIAL ASSUMPTIONS – OPERS

Actuarial valuations of an ongoing plan involve estimates of the values of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and cost trends. Actuarially determined amounts are subject to continual review or modification as actual results are compared with past expectations and new estimates are made about the future.

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employers and plan members) and include the types of benefits provided at the time of each valuation. The total pension liability in the December 31, 2014, actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

| | |
|--|--|
| Wage Inflation | 3.75 percent |
| Future Salary Increases, including inflation | 4.25 to 10.05 percent including wage inflation |
| COLA or Ad Hoc COLA | 3 percent, simple |
| Investment Rate of Return | 8 percent |
| Actuarial Cost | Individual Entry Age |

Mortality rates were based on the RP-2000 Mortality Table projected 20 years using Projection Scale AA. For males, 105 percent of the combined healthy male mortality rates were used. For females, 100 percent of the combined healthy female mortality rates were used. The mortality rates used in evaluating disability allowances were based on the RP-2000 mortality table with no projections. For males 120 percent of the disabled female mortality rates were used set forward two years. For females, 100 percent of the disabled female mortality rates were used.

CITY OF PARMA HEIGHTS, OHIO
 CUYAHOGA COUNTY
 NOTES TO THE BASIC FINANCIAL STATEMENTS
 FOR THE YEAR ENDED DECEMBER 31, 2015

NOTE 13 – DEFINED BENEFIT PENSION PLANS (continued)

E. ACTUARIAL ASSUMPTIONS – OPERS (continued)

The most recent experience study was completed for the five year period ended December 31, 2010.

The long-term rate of return on defined benefit investment assets was determined using a building-block method in which best-estimate ranges of expected future real rates of return are developed for each major asset class. These ranges are combined to produce the long-term expected real rate of return by weighting the expected future real rates of return by the target asset allocation percentage, adjusted for inflation.

OPERS manages investments in four investment portfolios: the Defined Benefits portfolio, the Health Care portfolio, the 115 Health Care Trust portfolio and the Defined Contribution portfolio. The Defined Benefit portfolio includes the investment assets of the Traditional Pension Plan, the defined benefit component of the Combined Plan, the annuitized accounts of the Member-Directed Plan and the VEBA Trust. Within the Defined Benefit portfolio, contributions into the plans are all recorded at the same time, and benefit payments all occur on the first of the month. Accordingly, the money-weighted rate of return is considered to be the same for all plans within the portfolio. The money weighted rate of return, net of investments expense, for the Defined Benefit portfolio is 6.95 percent for 2014.

The allocation of investment assets with the Defined Benefit portfolio is approved by the Board of Trustees as outlined in the annual investment plan. Plan assets are managed on a total return basis with a long-term objective of achieving and maintaining a fully funded status for the benefits provided through the defined benefit pension plans. The table below displays the Board-approved asset allocation policy for 2014 and the long-term expected real rates of return:

| Asset Class | Target Allocation | Weighted Average Long-term Expected Real Rate of Return (Arithmetic) |
|------------------------|----------------------|---|
| Fixed income | 23.00% | 2.31% |
| Domestic equities | 19.90% | 5.84% |
| Real estate | 10.00% | 4.25% |
| Private equity | 10.00% | 9.25% |
| International equities | 19.10% | 7.40% |
| Other investments | 18.00% | 4.59% |
| Total | <u>100.00%</u> | <u>5.28%</u> |

Discount Rate - The discount rate used to measure the total pension liability was 8 percent. The projection of cash flows used to determine the discount rate assumed that contributions from plan members and those of the contributing employers are made at the statutorily required rates. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefits payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

CITY OF PARMA HEIGHTS, OHIO
 CUYAHOGA COUNTY
 NOTES TO THE BASIC FINANCIAL STATEMENTS
 FOR THE YEAR ENDED DECEMBER 31, 2015

NOTE 13 – DEFINED BENEFIT PENSION PLANS (continued)

E. ACTUARIAL ASSUMPTIONS – OPERS (continued)

Sensitivity of the City's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate - The following table presents the City's proportionate share of the net pension liability calculated using the current period discount rate assumption of 8 percent, as well as what the City's proportionate share of the net pension liability would be if it were calculated using a discount rate that is one-percentage-point lower (7 percent) or one-percentage-point higher (9 percent) than the current rate:

| | 1% Decrease (7.00%) | Current Discount Rate (8.00%) | 1% Increase (9.00%) |
|--|------------------------|-------------------------------------|------------------------|
| City's proportionate share of the net pension liability | \$ 6,342,726 | \$ 3,445,913 | \$ 1,009,230 |

F- ACTUARIAL ASSUMPTIONS – OP&F

OP&F's total pension liability as of December 31, 2014 is based on the results of an actuarial valuation date of January 1, 2014, and rolled-forward using generally accepted actuarial procedures. The total pension liability is determined by OP&F's actuaries in accordance with GASB Statement No. 67, as part of their annual valuation. Actuarial valuations of an ongoing plan involve estimates of reported amounts and assumptions about probability of occurrence of events far into the future. Examples include assumptions about future employment mortality, salary increases, disabilities, retirements and employment terminations. Actuarially determined amounts are subject to continual review and potential modifications, as actual results are compared with past expectations and new estimates are made about the future.

Key methods and assumptions used in calculating the total pension liability in the latest actuarial valuation, prepared as of January 1, 2014, are presented below:

| | |
|----------------------------|-------------------------------|
| Valuation Date | January 1, 2014 |
| Actuarial Cost Method | Entry Age Normal |
| Investment Rate of Return | 8.25 percent |
| Projected Salary Increases | 4.25 percent to 11 percent |
| Payroll Increases | 3.75 percent |
| Inflation Assumptions | 3.25 percent |
| Cost of Living Adjustments | 2.60 percent and 3.00 percent |

Rates of death are based on the RP2000 Combined Table, age-adjusted as follows. For active members, set back six years. For disability retirements, set forward five years for police and three years for firefighters. For service retirements, set back zero years for police and two years for firefighters. For beneficiaries, set back zero years. The rates are applied on a fully generational basis, with a base year of 2009, using mortality improvement Scale AA.

The most recent experience study was completed January 1, 2012.

CITY OF PARMA HEIGHTS, OHIO
 CUYAHOGA COUNTY
 NOTES TO THE BASIC FINANCIAL STATEMENTS
 FOR THE YEAR ENDED DECEMBER 31, 2015

NOTE 13 – DEFINED BENEFIT PENSION PLANS (continued)

F- ACTUARIAL ASSUMPTIONS – OP&F (continued)

The long-term expected rate of return on pension plan investments was determined using a building-block approach and assumes a time horizon, as defined in the Statement of Investment Policy. A forecasted rate of inflation serves as the baseline for the return expectation. Various real return premiums over the baseline inflation rate have been established for each asset class. The long-term expected nominal rate of return has been determined by calculating a weighted averaged of the expected real return premiums for each asset class, adding the projected inflation rate and adding the expected return from rebalancing uncorrelated asset classes. Best estimates of the long-term expected geometric real rates of return for each major asset class included in OP&F's target asset allocation as of December 31, 2014 are summarized below:

| <u>Asset Class</u> | <u>Target Allocation</u> | <u>Weighted Average Long-term Expected Real Rate of Return (Arithmetic)</u> |
|------------------------------|------------------------------|---|
| Cash and cash equivalents | 0.00% | -0.25% |
| Domestic equity | 16.00% | 4.47% |
| Non-US equity | 16.00% | 4.47% |
| Core fixe income * | 20.00% | 1.62% |
| Global inflation protected * | 20.00% | 1.33% |
| High yield | 15.00% | 3.39% |
| Real estate | 12.00% | 3.93% |
| Private markets | 8.00% | 6.98% |
| Timber | 5.00% | 4.92% |
| Master limited partnerships | 8.00% | 7.03% |
| Total | <u>120.00%</u> | |

* levered 2x

OP&F's Board of Trustees has incorporated the "risk parity" concept into OP&F's asset liability valuation with the goal of reducing equity risk exposure, which reduces overall Total Portfolio risk without sacrificing return, and creating a more risk-balanced portfolio based on their relationship between asset classes and economic environments. From the notional portfolio perspective above, the Total Portfolio may be levered up to 1.2 times due to the application of leverage in certain fixed income asset classes.

Discount Rate - The total pension liability was calculated using the discount rate of 8.25 percent. The projection of cash flows used to determine the discount rate assumed the contributions from employers and from the members would be computed based on contribution requirements as stipulated by State statute. Projected inflows from investment earning were calculated using the longer-term assumed investment rate of return 8.25 percent. Based on those assumptions, the plan's fiduciary net position was projected to be available to make all future benefit payments of current plan members. Therefore, a long-term expected rate of return on pension plan investments was applied to all periods of projected benefits to determine the total pension liability.

CITY OF PARMA HEIGHTS, OHIO
 CUYAHOGA COUNTY
 NOTES TO THE BASIC FINANCIAL STATEMENTS
 FOR THE YEAR ENDED DECEMBER 31, 2015

NOTE 13 – DEFINED BENEFIT PENSION PLANS (continued)

F- ACTUARIAL ASSUMPTIONS – OP&F (continued)

Sensitivity of the City's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate - Net pension liability is sensitive to changes in the discount rate, and to illustrate the potential impact the following table presents the net pension liability calculated using the discount rate of 8.25 percent, as well as what the net pension liability would be if it were calculated using a discount rate that is one percentage point lower (7.25 percent), or one percentage point higher (9.25 percent) than the current rate. The changes in the City's long-term obligations during 2015 were as follows:

| | 1% Decrease (7.25%) | Current Discount Rate (8.25%) | 1% Increase (9.25%) |
|--|------------------------|-------------------------------------|------------------------|
| City's proportionate share of the net pension liability | \$ 18,333,352 | \$ 13,254,770 | \$ 8,954,755 |

NOTE 14 – POST-EMPLOYMENT BENEFITS

A. OHIO PUBLIC EMPLOYEES RETIREMENT SYSTEM

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

OPERS maintains a cost-sharing, multiple-employer defined benefit post-employment health care trust, which fund multiple health care plans including medical coverage, prescription drug coverage, deposits to a Health Reimbursement Arrangement and Medicare Part B premium reimbursements, to qualifying benefit recipients of both the traditional pension and the combined plans. Members of the member-directed plan do not qualify for ancillary benefits, including OPERS sponsored health care coverage.

In order to qualify for health care coverage, age-and-service retirees under the traditional pension and combined plans must have 20 or more years of qualifying Ohio service credit. Health care coverage for disability benefit recipients and qualified survivor benefit recipients is available. The health care coverage provided by OPERS meets the definition of an Other Post-Employment Benefit (OPEB) as described in GASB Statement 45. Please see the Plan Statement in the OPERS 2014 CAFR for details.

The Ohio Revised Code (ORC) permits, but does not require OPERS to provide health care to its eligible benefit recipients. Authority to establish and amend health care coverage is provided to the Board by Chapter 145 of the Ohio Revised Code.

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

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

CITY OF PARMA HEIGHTS, OHIO
CUYAHOGA COUNTY
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2015

NOTE 14 – POST-EMPLOYMENT BENEFITS (continued)

A. OHIO PUBLIC EMPLOYEES RETIREMENT SYSTEM (continued)

Employer contribution rates are expressed as a percentage of the earnable salary of active members. In 2015, state and local employers contributed at a rate of 14.0 percent of earnable salary and public safety and law enforcement employers contributed at 18.1 percent. These are the maximum employer contribution rates permitted by the Ohio Revised Code. Active member contributions do not fund health care.

OPERS maintains three health care trusts. The two cost-sharing, multiple-employer trusts, the 401(h) Health Care Trust, work together to provide health care funding to eligible retirees of the Traditional Pension and Combined plans. The third trust is a Voluntary Employee's Beneficiary Association (VEBA) that provides funding for a Retiree Medical Account for Member-Directed Plan members. Each year, the OPERS Board of Trustees determines the portion of the employer contribution rate that will be set aside to fund health care plans. The portion of employer contributions allocated to health care for members in the traditional pension plan and combined plan was 2.0 percent during calendar year 2015. As recommended by OPERS' actuary, the portion of employer contributions allocated to health care beginning January 1, 2016 remained 2.0 percent for both plans. The Board is also authorized to establish rules for the retiree or their surviving beneficiaries to pay a portion of the health care provided. Payment amounts vary depending on the number of covered dependents and the coverage selected. The employer contribution as a percentage of covered payroll deposited to the VEBA for participants in the Member-Directed Plan for 2015 was 4.5 percent.

The City's contributions to OPERS allocated to fund health care for the years ended December 31, 2015, 2014, and 2013, were \$ 64,659, \$ 74,000, and \$ 37,690, respectively; 93 percent has been contributed for 2015 and 100 percent for 2014 and 2013.

B. OHIO POLICE AND FIRE PENSION FUND

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

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

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

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

CITY OF PARMA HEIGHTS, OHIO
CUYAHOGA COUNTY
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2015

NOTE 14 – POST-EMPLOYMENT BENEFITS (continued)

B. OHIO POLICE AND FIRE PENSION FUND (continued)

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

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

The Board of Trustees is authorized to allocate a portion of the total employer contributions made into the pension plan to the Section 115 trust and the Section 401(h) account as the employer contribution for retiree health care benefits. The portion of employer contributions allocated to health care was 0.5 percent of covered payroll from January 1, 2015 through December 31, 2015. The amount of employer contributions allocated to the health care plan each year is subject to the Trustees' primary responsibility to ensure that pension benefits are adequately funded and is limited by the provisions of Section 115 and 401(h).

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

The City's contributions to OP&F for the years ended December 31, 2015, 2014, and 2013, were \$ 1,096,641, \$ 1,129,675, and \$ 1,092,563, respectively, of which \$ 25,617, \$ 26,405, and \$ 183,424, respectively, was allocated to the health care plan. 92 percent has been contributed for 2015 and 100 percent for 2014 and 2013.

NOTE 15 – JOINTLY GOVERNED ORGANIZATION

A. SOUTHWEST COUNCIL OF GOVERNMENTS

The Southwest Council of Governments (the SCOG) is a regional council of governments formed under chapter 167 of the Ohio Revised Code for the purpose of fostering cooperation between municipalities in areas affecting health, safety, welfare, education, economic conditions and regional development. The Board is comprised of one member from each of the 19 participating entities. The Board exercises total control over the operation of the SCOG including budgeting, appropriating, contracting and designating management. Budgets are adopted by the Board. Each City's degree of control is limited to its representation on the Board. The SCOG has established two subsidiary organizations, the Southwest Emergency Response Team (SERT) which provides hazardous material protection, emergency and technical rescue, and fire investigation services; and the Southwest Enforcement Bureau (SEB) which provides extra assistance to cities in the form of a Special Weapons and Tactics Team (SWAT Team) and bomb disposal unit. The SCOG's financial statements may be obtained by contacting the Southwest Council of Governments, 11 Berea Commons, Berea, Ohio 44017.

CITY OF PARMA HEIGHTS, OHIO
CUYAHOGA COUNTY
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2015

NOTE 15 – JOINTLY GOVERNED ORGANIZATION (continued)

B. PARMA COMMUNITY GENERAL HOSPITAL ASSOCIATION

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

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

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

C. NORTHEAST OHIO PUBLIC ENERGY COUNCIL

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

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

NOTE 16 – CONTINGENCIES

For the year ended December 31, 2015, the City received assistance from various state and federal agencies. There are certain requirements of a compliance nature that have to be met and programs are subject to audit by the grantor agency. Any disallowed claims could be liabilities of the General Fund or other applicable funds. In the opinion of management, any claims that might arise would not have a material effect on the City's financial statements.

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

CITY OF PARMA HEIGHTS, OHIO
CUYAHOGA COUNTY

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2015

NOTE 17 – CONSTRUCTION COMMITMENTS

As of December 31, 2015, the City had contractual commitments as follows:

| Project | Project Authorization | Expended to Date | Outstanding Commitments |
|----------------------------------|--------------------------|---------------------|----------------------------|
| Finance software upgrade | \$ 55,619 | \$ 33,620 | \$ 21,999 |
| Fiber Optic Connectivity Project | 32,028 | 5,249 | 26,779 |
| | <u>\$ 87,647</u> | <u>\$ 38,869</u> | <u>\$ 48,778</u> |

NOTE 18 – RISK MANAGEMENT

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

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

At year-end, self-insurance was in effect for losses up to \$ 50,000 per participant, with an aggregate stop-loss threshold for the 2015 contract year of \$ 1,000,000. Excess losses are insured by a private insurance company.

Liabilities are accrued when it is probable that a loss has occurred and the amount of the loss can be reasonably estimated. Liabilities include an amount for claims that have been incurred but not reported. Changes in the balance of claims liability during the years ended December 31, 2015 and 2014 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.

| | 2015 | 2014 |
|----------------------------------|-------------------|-------------------|
| Unpaid claims, beginning of year | \$ 206,166 | \$ 108,486 |
| Incurred claims | 1,816,684 | 1,489,724 |
| Claim payments | (1,839,667) | (1,392,044) |
| Unpaid claims, end of year | <u>\$ 183,183</u> | <u>\$ 206,166</u> |

NOTE 19 – EXTRAORDINARY ITEM

During 2015, the City had an arson which resulted in a gain of \$ 1,378,908 on the disposal of assets related to the insurance claim.

NOTE 20 – SUBSEQUENT EVENT

In May of 2016, the City paid the \$ 700,000 Street Improvement Bond Anticipation Notes and issued Street Improvement General Obligation Bond Anticipation Notes in the amount of \$ 600,000 for the purpose of paying a portion of the costs of reconstructing Stumph Road from Snow Road to Pearl Road

In June 2016, the City's council approved the issuance of \$2,245,000 Special Assessment Bond Anticipation Notes to retire the outstanding Notes of \$2,520,000. The Notes will be issued in July 2016.

REQUIRED SUPPLEMENTARY INFORMATION

This page intentionally left blank.

CITY OF PARMA HEIGHTS, OHIO
CUYAHOGA COUNTY

REQUIRED SUPPLEMENTARY INFORMATION

SCHEDULE OF THE CITY'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY
OHIO PUBLIC EMPLOYEES RETIREMENT SYSTEM – TRADITIONAL PLAN
LAST TWO YEARS (1)

| | 2014 | 2013 |
|--|--------------|--------------|
| City's proportion of the net pension liability | 0.028582% | 0.028582% |
| City's proportionate of the net pension liability | \$ 3,445,913 | \$ 3,369,065 |
| City's covered-employee payroll | \$ 3,554,250 | \$ 3,770,638 |
| City's proportionate share of the net pension liability as a percentage of its covered -employee payroll | 96.95% | 89.35% |
| Plan fiduciary net pension as a percentage of the total pension liability | 86.45% | 86.36% |

(1) Information prior to 2013 is not available

Amounts presented as of the City's measurement date, which is the prior fiscal year end.

CITY OF PARMA HEIGHTS, OHIO
CUYAHOGA COUNTY

REQUIRED SUPPLEMENTARY INFORMATION

SCHEDULE OF THE CITY'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY
OHIO POLICE AND FIRE PENSION FUND
LAST TWO YEARS (1)

| | <u>2014</u> | <u>2013</u> |
|--|---------------|---------------|
| City's proportion of the net pension liability | 0.255863% | 0.255863% |
| City's proportionate of the net pension liability | \$ 13,254,770 | \$ 12,461,331 |
| City's covered-employee payroll | \$ 5,222,800 | \$ 5,070,365 |
| City's proportionate share of the net pension liability as a percentage of its covered -employee payroll | 253.79% | 245.77% |
| Plan fiduciary net pension as a percentage of the total pension liability | 72.20% | 73.00% |

(1) Information prior to 2013 is not available

Amounts presented as of the City's measurement date, which is the prior fiscal year end.

CITY OF PARMA HEIGHTS, OHIO
CUYAHOGA COUNTY

REQUIRED SUPPLEMENTARY INFORMATION

SCHEDULE OF THE CITY CONTRIBUTIONS
OHIO PUBLIC EMPLOYEES RETIREMENT SYSTEM – TRADITIONAL PLAN
LAST THREE YEARS (1)

| | <u>2015</u> | <u>2014</u> | <u>2013</u> |
|--|------------------|------------------|------------------|
| Contractually required contribution | \$ 388,092 | \$ 426,510 | \$ 490,183 |
| Contributions in relation to the contractually required contributions | <u>(388,092)</u> | <u>(426,510)</u> | <u>(490,183)</u> |
| Contribution deficiency (excess) | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> |
| City covered-employee payroll | 3,234,100 | 3,554,250 | 3,770,638 |
| Contributions as a percentage of covered-employee payroll | 12.00% | 12.00% | 13.00% |

(1) Information prior to 2013 is not available

CITY OF PARMA HEIGHTS, OHIO
 CUYAHOGA COUNTY
 REQUIRED SUPPLEMENTARY INFORMATION
 SCHEDULE OF THE CITY CONTRIBUTIONS
 OHIO POLICE AND FIRE PENSION FUND
 LAST TEN YEARS

| | <u>2015</u> | <u>2014</u> | <u>2013</u> | <u>2012</u> |
|--|--------------------|--------------------|------------------|------------------|
| Contractually required contribution | \$ 1,071,019 | \$ 1,069,195 | \$ 909,139 | \$ 771,295 |
| Contributions in relation to the contractually required contributions | <u>(1,071,019)</u> | <u>(1,069,195)</u> | <u>(909,139)</u> | <u>(771,295)</u> |
| Contribution deficiency (excess) | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> |
| City covered-employee payroll | 5,066,955 | 5,222,800 | 5,070,365 | 5,164,376 |
| Contributions as a percentage of covered-employee payroll | 21.14% | 20.47% | 17.93% | 14.93% |

| <u>2011</u> | <u>2010</u> | <u>2009</u> | <u>2008</u> | <u>2007</u> | <u>2006</u> |
|------------------|------------------|------------------|------------------|------------------|------------------|
| \$ 758,916 | \$ 729,737 | \$ 723,961 | \$ 772,793 | \$ 482,677 | \$ 380,505 |
| <u>(758,916)</u> | <u>(729,737)</u> | <u>(723,961)</u> | <u>(772,793)</u> | <u>(482,677)</u> | <u>(380,505)</u> |
| <u>\$ -</u> |
| 5,058,283 | 4,892,978 | 4,857,232 | 5,153,405 | 4,752,553 | 4,711,843 |
| 15.00% | 14.91% | 14.90% | 15.00% | 10.16% | 8.08% |

This page intentionally left blank.

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

Honorable Mayor and
Members of City Council
Parma Heights, Ohio

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the City of Parma Heights, Ohio (the "City"), as of and for the year ended December 31, 2015, and the related notes to the financial statements, which collectively comprise the City's basic financial statements and have issued our report thereon dated June 30, 2016, wherein we noted that the City adopted Governmental Accounting Standards Board (GASB) Statement No. 68, *Accounting and Financial Reporting for Pension- an amendment of GASB Statement No. 27*, and GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date – an amendment of GASB Statement No. 68*, and as a result restated their December 31, 2014 net position, as disclosed in Note 3 to the basic financial statements.

Internal Control over Financial Reporting

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

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings that we consider to be a material weakness (Finding No. 2015-001).

Honorable Mayor and
Members of City Council
Parma Heights, Ohio

Compliance and Other Matters

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

City of Parma Heights, Ohio's Response to Findings

The City's response to the finding identified in our audit is described in the accompanying schedule of findings. The City's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

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

Ciuni + Panichi, Inc.

Cleveland, Ohio
June 30, 2016

City of Parma Heights

Schedule of Findings

December 31, 2015

1. Summary of Auditor's Results

| | |
|--|------------|
| Type of Financial Statement Opinion | Unmodified |
| Were there any material weaknesses reported at the financial statement level (GAGAS)? | Yes |
| Were there any significant deficiencies reported at the financial statement level (GAGAS)? | No |
| Was there any material noncompliance reported at the financial statement level (GAGAS)? | No |

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

Finding 2015-001

Material Weakness

Condition:

We noted the City failed to achieve a proper year-end cutoff of accounts payable which resulted in material adjustments made to accounts payable and capital assets.

Criteria:

The internal control structure and processes should provide for the accurate cutoff procedures at year-end.

Cause:

Controls were not adequate to ensure proper cutoff.

Effect:

The lack of adequate controls over the cutoff procedures relating to liabilities can result in errors and/or irregularities going undetected and decrease the reliability of financial data.

Recommendation:

We recommend the City review its cutoff procedures to ensure adequate controls are in place over the year-end cutoff to help ensure the completeness of liabilities at period-end.

Management's Response:

The City while typically terminating the issuance of purchase order numbers by mid-December of the year to provide for orderly year-end accounting; will in addition review its cutoff procedures relating to accounts payable items to ensure that adequate controls are in place and are followed.

This page intentionally left blank.



Dave Yost • Auditor of State

CITY OF PARMA HEIGHTS

CUYAHOGA COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
SEPTEMBER 27, 2016**