

City of Parma Heights, Ohio

**Basic Financial Statements
For the Year Ended December 31, 2016**



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, 2016 through December 31, 2016. Based upon this review, we have accepted these reports in lieu of the audit required by Section 117.11, Revised Code. The Auditor of State did not audit the accompanying financial statements and, accordingly, we are unable to express, and do not express an opinion on them.

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

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

Dave Yost
Auditor of State

September 18, 2017

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City of Parma Heights, Ohio

For the Year Ended December 31, 2016

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Independent Auditor's Report

Honorable Mayor and
Members of City Council
Parma Heights, Ohio

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the City of Parma Heights, Ohio (the "City"), as of and for the year ended December 31, 2016, 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, 2016, 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.

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 61 through 65 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 29, 2017, 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 29, 2017

CITY OF PARMA HEIGHTS, OHIO
CUYAHOGA COUNTY
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2016
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, 2016. 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 2016 are as follows:

- Total net position decreased by \$ 2,431,930 or 16.0% in 2016. This was comprised of a decrease in net investment in capital assets of \$ 1,069,262, a decrease in unrestricted net position of \$ 1,147,791 and a decrease in restricted net position of \$ 214,877.
- Capital assets, net of depreciation, decreased by \$ 1,749,068 or 6.3% in 2016. 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 \$ 267,826 or 2.0% in 2016. The most notable changes in current and other assets were decreases in equity in pooled cash of \$542,280 and special assessment receivable of \$159,390 which were offset by an increase of \$ 341,273 in taxes receivable.
- Total liabilities had a net increase of \$ 2,978,569 or 11.6% in 2016. This increase was due to an increase in net pension liability of \$ 3,456,116 offset by decreases in other long term liabilities of \$ 202,842.

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 2016. The *Statement of Net Position* and the *Statement of Activities* include assets, deferred outflows of resources, liabilities and deferred inflows of resources using the accrual basis of accounting similar to the accounting method used by the private sector. The basis of this accounting takes into account all of the current year's revenues and expenses regardless of when the cash is received or paid.

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

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

- Assets
- Deferred 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.

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The City of Parma Heights As A Whole

The Statement of Net Position provides the perspective of the City as a whole. Table 1 provides a summary of the City's net position for 2016 compared to 2015 (as restated).

Table 1
 Total Net Position

	2016	Restated 2015
Assets		
Current and other assets	\$ 12,993,708	\$ 13,261,534
Capital assets, net	26,152,821	27,901,889
Total assets	<u>39,146,529</u>	<u>41,163,423</u>
Deferred outflows of resources	<u>5,438,173</u>	<u>2,242,653</u>
Liabilities		
Current liabilities	3,525,103	3,799,808
Long-term liabilities		
Due within one year	1,393,329	1,408,731
Due in more than one year		
Net pension liability	20,483,528	17,027,412
Other amounts	3,620,324	3,807,764
Total liabilities	<u>29,022,284</u>	<u>26,043,715</u>
Deferred inflows of resources	<u>3,077,137</u>	<u>2,445,150</u>
Net position		
Net investment in capital assets	20,473,110	21,542,372
Restricted	3,729,880	3,944,757
Unrestricted	(11,717,709)	(10,569,918)
Total net position	<u>\$ 12,485,281</u>	<u>\$ 14,917,211</u>

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, as required GASB 68.

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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 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 \$ 12,485,281 as of December 31, 2016.

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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.

The City's total assets decreased by \$ 2,016,894 from 2015 to 2016. 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 \$ 267,826 and a net decrease in the additions, deletions, and depreciation expense of capital assets during the year of \$ 1,749,068.

The City's total liabilities increased by \$ 2,978,569 which was the result of increases of \$ 3,569,981 in accounts payable, claims payable, accrued salaries, wages and benefits and the net pension liability. The increases were offset by decreases of \$ 591,412 in accrued interest payable, due to other governments, note payable and paying down on the long term debt.



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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 2016 and 2015 (as restated.)

Table 2
 Changes in Net Position

	2016	Restated 2015
Revenues		
Program revenues		
Charges for services and sales	\$ 3,576,614	\$ 3,853,011
Operating grants and contributions	196,632	208,798
Capital grants and contributions	257,083	765,852
Total program revenues	<u>4,030,329</u>	<u>4,827,661</u>
General revenues		
Property taxes and special assessments	2,698,015	2,801,366
Income taxes	9,261,281	8,812,874
Grants and entitlements, unrestricted	1,788,752	1,645,958
Interest	30,930	30,970
Miscellaneous	92,909	511,059
Total general revenues	<u>13,871,887</u>	<u>13,802,227</u>
Total revenues	<u>17,902,216</u>	<u>18,629,888</u>
Program expenses		
Security of persons and property	11,141,987	10,106,214
Public health and welfare	356,419	332,919
Leisure time activities	720,463	733,754
Community environment	2,783,332	2,896,748
Basic utility services	1,099,890	1,091,309
Transportation	1,541,757	2,083,301
General government	2,571,287	2,686,217
Interest	119,011	146,382
Total program expenses	<u>20,334,146</u>	<u>20,076,844</u>
Extraordinary item - arson claim	-	1,378,908
Decrease in net position	(2,431,930)	(68,048)
Net position at beginning of year, restated	14,917,211	14,985,259
Net position at end of year	<u>\$ 12,485,281</u>	<u>\$ 14,917,211</u>

Governmental Activities

Several revenue sources fund our governmental activities, with property tax and income tax usually being the largest contributors. However, in 2016, the City's largest contributor was municipal income tax with 51.7% of total revenue and program revenue was the second largest with 22.5%. Property taxes were 15.0% and grants and entitlements, unrestricted in general revenue, totaling \$ 1,788,752 accounts for 10.0% of total governmental activity revenue. These unrestricted grants and entitlements are comprised of distributions from the State and County.

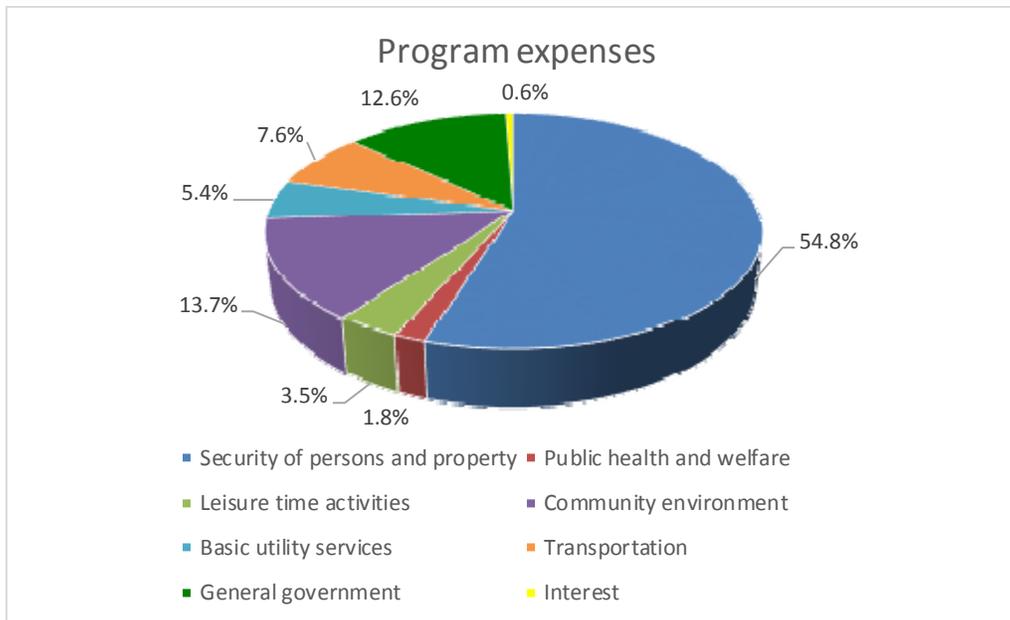
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Security of persons and property, including our police and fire departments, accounted for \$ 11,141,987, which is 54.8% of total governmental activity expenses. General government expenses, including the executive, legislative and administrative functions of our City government activities accounted for \$ 2,571,287 or 12.6%. The remaining 32.6% 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	\$ 11,141,987	\$ (9,645,289)
Public health and welfare	356,419	(210,894)
Leisure time activities	720,463	(443,997)
Community environment	2,783,332	(2,353,708)
Basic utility services	1,099,890	(914,055)
Transportation	1,541,757	(567,463)
General government	2,571,287	(2,049,400)
Interest	119,011	(119,011)
Total cost of services	\$ 20,334,146	\$ (16,303,817)



CITY OF PARMA HEIGHTS, OHIO
CUYAHOGA COUNTY
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Charges for services, operating grants and contributions, and capital grants and contributions all reduce the governmental activity expenses. For 2016, there was a difference of \$ 4,030,329 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 \$ 1,496,698 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 \$ 276,466 primarily through charges for services and sales and donations for participation in parks, recreation, and senior programs.
- Community environment expenses were reduced by \$ 429,624 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 \$ 145,525 of program revenues derived from miscellaneous grants utilized primarily for senior citizen programming, equipment acquisition and services.
- Basic utility services were reduced by \$ 168,355 for charges from services related to maintenance and a \$17,480 grant received for improving storm water drainage.
- Transportation services were reduced by \$ 974,294 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 \$ 521,887 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 \$ 19,257,416 and expenditures plus other financing uses of \$ 19,637,983. The most significant fund is the General Fund, which had a fund balance at year-end of \$ 70,256. General Fund expenditures plus other financing uses exceed revenue plus other financing sources by \$ 554,880.

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 2016 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.

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The original budgeted revenues for the General Fund were \$ 14,675,398, as certified to the County Budget Commission in January 2016. The final budgeted revenue amount was \$ 14,818,095, as certified to the County Budget Commission in December 2016. The increase in budgeted revenues of \$ 142,697 was derived primarily from increases in the following revenue categories: an increase of \$ 91,617 in property taxes, an increase of \$39,500 in income tax revenues, an increase of \$ 37,000 in building permit and commercial license fees, an increase of \$ 35,330 in cellular communication tower rental revenue, and an increase of \$ 12,500 in mayor's court fines and costs revenue. These budgetary revenue increases were offset by the following decreases in budgeted revenues: a decrease of \$15,000 in local government fund revenue, a decrease of \$ 20,000 in state-shared local government revenue, and a decrease of \$ 40,000 in traffic/speed enforcement camera fines. The City collected slightly under 99.8% of its final budgeted revenues in 2016.

The original appropriations or expenditure estimates, for the General Fund was \$ 15,161,698. The final appropriation total was \$ 15,538,783. The increase of \$ 377,085 was primarily due to an increase of \$ 551,331 in general government expense (of which approximately \$ 507,000 is attributable to transfer-out and advances-out to fund capital improvement projects, and approximately \$ 44,000 for miscellaneous expenses and healthcare cost increases). These increases were offset by a decrease of \$ 163,070 in security of persons and property expense and a decrease of \$ 14,925 in public service department expense. The actual expenditures for 2016 were less than the final budgeted amounts by \$ 294,554; equating to a spend rate of 98.1% of budget.

Capital Assets and Debt Administration

Capital Assets

Table 4
 Capital Assets
 (Net of Depreciation)

	2016	2015
Land	\$ 1,421,777	\$ 1,421,777
Construction in process	298,424	822,079
Buildings and improvements	3,272,272	3,427,302
Machinery, equipment and vehicles	1,904,397	2,079,793
Infrastructure	19,255,951	20,150,938
	\$ 26,152,821	\$ 27,901,889

The City's total capital assets for governmental activities decreased in 2016 by \$ 1,749,068. The majority of this decrease was from depreciation expense exceeding the amount of capital assets added during 2016. See Note 8 for additional detailed information on capital assets.

Debt

As of December 31, 2016, the City of Parma Heights had \$ 3,434,711 in long-term debt obligations excluding net pension liability and compensated absences, comprised as shown in Table 5. Payments due within one year total \$ 1,393,329.

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Table 5
 Long-Term Debt

	2016	2015
Loans payable	\$ 246,504	\$ 310,042
Bond anticipation note	600,000	700,000
Bonds payable		
General obligation bonds	2,023,000	2,507,000
Special assessment bonds	75,252	99,064
Capital lease obligations	489,955	223,411
	\$ 3,434,711	\$ 3,839,517

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 received into the Bond Retirement Fund.

Special assessment bonds consist of funding for various street improvement projects and retaining wall improvements. Principal and interest for these bonds are paid from special assessments collected from the affected property owners by the County 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, an ambulance and police equipment. The curbside recycling truck will be repaid in 2018. The fire protective bunker gear leased in 2013 will be repaid in 2017. The police vehicles and equipment leased in 2016 will be repaid in 2019. The vehicle leased in 2015 will be repaid in 2018. The ambulance leased in 2016 will be repaid in 2021.

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

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UNAUDITED

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. During 2016 the Parma Regional Dispatch Center, originally a three city regional dispatch center for police, fire and emergency rescue dispatch services, expanded to four cities; and continued to provide the opportunity to improve safety response services without an expansion of our budget.

Grants and funding from outside agencies 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, concluded in early 2016. In October of 2016 the City received an implementation grant to assist in taking a portion of the NOACA study recommendations from concept to reality. During 2016, the City's Master Plan was updated to coordinate with these study recommendations. These improvements will also be coordinated with the resurfacing of Pearl Road, the primary commercial corridor, proposed as part of the NOACA 2020 street resurfacing budget. A Community Development Block Grant was also utilized in 2016 to fund the restoration of many of the handicap ramps at intersections along Pearl Road. In addition, the Cuyahoga County Library System invested \$900,000 in improvements to their branch library located in Parma Heights, reflecting a strong commitment to the residents of our community.

Emphasis continues to be placed on economic development efforts to encourage and facilitate market decisions, which while beyond our immediate control, are certainly within our scope of local influence. Understanding that businesses come and go in the marketplace, particularly in uncertain economic times, it is encouraging to note that the City gained a net thirteen new businesses during 2016. 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.

To assist and entice business growth the City actively utilizes economic development tools available through the Cuyahoga County Department of Development; including the Grow Cuyahoga Fund and the ECDI Loan Program; which offer low interest financing to new and existing businesses for acquisition, renovation, and equipment. These programs are vital to Parma Heights in helping to support job creation and retention.

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 2016, 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.

CITY OF PARMA HEIGHTS, OHIO
CUYAHOGA COUNTY
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2016
UNAUDITED

It is encouraging to note that home sales in Parma Heights increased by 18% from 2015 to 2016. The median age of our residents has dropped to 40.6, reflecting an influx of younger families gravitating to the amenities of our community, combined with a stable housing stock offered at affordable pricing. Recently the Mayor and Economic Director hosted a meeting of an area wide organization of real estate agents for the purpose of introducing them to what our community has to offer a prospective home buyer. The positive reaction from the real estate professionals in attendance was very encouraging.

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, 2016

	Governmental Activities
Assets	
Equity in pooled cash and cash equivalents	\$ 1,054,530
Accounts receivable	131,067
Due from other governments	977,984
Inventories and supplies	154,331
Prepaid items	36,323
Taxes receivable	8,416,531
Special assessments receivable	2,222,942
Capital assets	
Nondepreciable capital assets	1,720,201
Depreciable capital assets, net	24,432,620
Total assets	39,146,529
Deferred outflow s of resources	
Deferred charges on advance refunding	19,288
Pension	5,418,885
Total deferred outflow s of resources	5,438,173
Liabilities	
Accounts and contracts payable	252,098
Claims payable	194,117
Accrued salaries, wages and benefits	207,283
Accrued interest payable	32,441
Due to other governments	594,164
Notes payable	2,245,000
Long-term liabilities	
Due w ithin one year	1,393,329
Due in more than one year	
Net pension liability	20,483,528
Other amounts	3,620,324
Total liabilities	29,022,284
Deferred inflow s of resources	
Property taxes	2,438,873
Pension	638,264
Total deferred inflow s of resources	3,077,137
Net position	
Net investment in capital assets	20,473,110
Restricted for:	
Debt service	2,737,534
Capital projects	192,930
Highw ay and streets	593,484
Public safety	135,666
Recreation	64,497
Other purposes	5,769
Unrestricted	(11,717,709)
Total net position	\$ 12,485,281

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, 2016

	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	\$ 11,141,987	\$ 1,492,460	\$ 4,238	\$ -	\$ (9,645,289)
Public health and welfare	356,419	-	145,525	-	(210,894)
Leisure time activities	720,463	233,117	43,349	-	(443,997)
Community environment	2,783,332	282,480	-	147,144	(2,353,708)
Basic utility services	1,099,890	168,355	-	17,480	(914,055)
Transportation	1,541,757	881,835	-	92,459	(567,463)
General government	2,571,287	518,367	3,520	-	(2,049,400)
Interest	119,011	-	-	-	(119,011)
Total governmental activities	<u>\$ 20,334,146</u>	<u>\$ 3,576,614</u>	<u>\$ 196,632</u>	<u>\$ 257,083</u>	<u>(16,303,817)</u>

General revenues

Property taxes and special assessments levied for:	
General purpose	1,663,792
Other purposes	291,308
Debt service	610,688
Capital improvements	132,227
Municipal income taxes levied for:	
General purposes	9,261,281
Grants and entitlements not restricted to specific purposes	1,788,752
Interest	30,930
Miscellaneous	92,909
Total general revenues	<u>13,871,887</u>
Change in net position	(2,431,930)
Net position at beginning of year, restated	14,917,211
Net position at end of year	<u>\$ 12,485,281</u>

See the accompanying notes to the basic financial statements.

CITY OF PARMA HEIGHTS, OHIO
 CUYAHOGA COUNTY
 BALANCE SHEET – GOVERNMENTAL FUNDS
 DECEMBER 31, 2016

	General Fund	Bond Retirement Fund	Capital Projects Fund	Other Governmental Funds	Total Governmental Funds
Assets					
Equity in pooled cash and cash equivalents	\$ 372,748	\$ 335,310	\$ 7,222	\$ 339,250	\$ 1,054,530
Taxes receivable	7,243,445	679,156	-	493,930	8,416,531
Special assessments receivable	-	2,222,942	-	-	2,222,942
Due from other governments	388,690	44,950	-	544,344	977,984
Accounts receivable	130,208	-	-	859	131,067
Interfund receivable	25,000	1,191	-	-	26,191
Inventories and supplies	43,008	-	-	111,323	154,331
Prepaid items	35,493	-	-	830	36,323
Total assets	\$ 8,238,592	\$ 3,283,549	\$ 7,222	\$ 1,490,536	\$ 13,019,899
Liabilities, deferred inflow s of resources and fund balances					
Liabilities					
Accounts and contracts payable	\$ 179,591	\$ -	\$ 19,917	\$ 52,590	\$ 252,098
Claims payable	194,117	-	-	-	194,117
Accrued salaries, wages and benefits	204,949	-	-	2,334	207,283
Accrued interest payable	-	-	19,776	-	19,776
Due to other governments	574,936	-	-	19,228	594,164
Interfund payable	-	-	26,191	-	26,191
Note payable	-	-	2,245,000	-	2,245,000
Total liabilities	1,153,593	-	2,310,884	74,152	3,538,629
Deferred inflow s of resources					
Property Taxes	1,514,562	534,813	-	389,498	2,438,873
Unavailable revenue - delinquent property taxes	257,422	91,343	-	66,432	415,197
Unavailable revenue - municipal income taxes	4,820,204	-	-	-	4,820,204
Unavailable revenue - other	422,555	2,267,892	-	477,182	3,167,629
Total deferred inflow s of resources	7,014,743	2,894,048	-	933,112	10,841,903
Fund balances					
Nonspendable	78,501	-	-	112,153	190,654
Restricted	2,540	389,501	-	371,119	763,160
Committed	4,021	-	-	-	4,021
Assigned	261,449	-	-	-	261,449
Unassigned (deficit)	(276,255)	-	(2,303,662)	-	(2,579,917)
Total fund balances (deficit)	70,256	389,501	(2,303,662)	483,272	(1,360,633)
Total liabilities, deferred inflow s of resources and fund balances	\$ 8,238,592	\$ 3,283,549	\$ 7,222	\$ 1,490,536	\$ 13,019,899

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, 2016

Total governmental fund balances		\$ (1,360,633)
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.		26,152,821
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	\$ 415,197	
Municipal income taxes	4,820,204	
Intergovernmental	898,358	
Special assessments	2,222,942	
Miscellaneous	46,329	
		8,403,030
Deferred outflow s of resources represent deferred charges on refundings, w hich are not reported on in the funds.		19,288
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.		(12,665)
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	5,418,885	
Net pension liability	(20,483,528)	
Deferred inflow s of resources - pension	(638,264)	
		(15,702,907)
Long-term liabilities are not due and payable in the current period and therefore are not reported in the funds:		
Loans payable	(246,504)	
Note payable	(600,000)	
General obligation bonds	(2,023,000)	
Special assessment bonds	(75,252)	
Capital leases	(489,955)	
Compensated absences	(1,578,942)	
		(5,013,653)
Net position of governmental activities		\$ 12,485,281

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, 2016

	General Fund	Bond Retirement Fund	Capital Projects Fund	Other Governmental Funds	Total Governmental Funds
Revenues					
Property and other local taxes	\$ 1,640,597	\$ 570,062	\$ -	\$ 415,123	\$ 2,625,782
Municipal income taxes	8,808,641	-	-	-	8,808,641
Intergovernmental	952,949	89,902	109,939	1,090,696	2,243,486
Special assessments	-	188,449	-	-	188,449
Charges for services	2,231,158	-	-	221,339	2,452,497
Fines, licenses and permits	978,009	-	-	10,081	988,090
Interest	5,467	5,716	-	869	12,052
Miscellaneous	223,228	-	-	11,349	234,577
Total revenues	14,840,049	854,129	109,939	1,749,457	17,553,574
Expenditures					
Current					
Security of persons and property	9,556,111	-	-	245,203	9,801,314
Public health and welfare	338,718	-	-	-	338,718
Leisure time activities	190,998	-	-	385,879	576,877
Community environment	2,749,119	-	-	-	2,749,119
Basic utility services	153,049	-	-	-	153,049
Transportation	27,786	-	-	936,891	964,677
General government	2,332,409	23,758	-	-	2,356,167
Capital outlay	-	-	392,244	99,289	491,533
Debt service					
Principal	-	564,369	600,000	106,981	1,271,350
Capital lease	193,290	-	-	-	193,290
Interest and fiscal charges	13,283	74,742	28,734	-	116,759
Total expenditures	15,554,763	662,869	1,020,978	1,774,243	19,012,853
Excess (deficiency) of revenues over (under) expenditures	(714,714)	191,260	(911,039)	(24,786)	(1,459,279)
Other financing sources (uses)					
Transfers-in	-	25,000	550,130	50,000	625,130
Transfers-out	(300,000)	(300,130)	-	(25,000)	(625,130)
Note proceeds	-	-	600,000	-	600,000
Premium on note issuance	-	18,878	-	-	18,878
Capital lease proceeds	459,834	-	-	-	459,834
Total other financing sources (uses)	159,834	(256,252)	1,150,130	25,000	1,078,712
Net change in fund balance	(554,880)	(64,992)	239,091	214	(380,567)
Fund balances (deficit), beginning of year, restated	625,136	454,493	(2,542,753)	483,058	(980,066)
Fund balances (deficit), end of year	\$ 70,256	\$ 389,501	\$ (2,303,662)	\$ 483,272	\$ (1,360,633)

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, 2016

Net change in fund balances - total governmental funds		\$ (380,567)
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	\$ 937,667
	Depreciation expense	<u>(2,610,939)</u>
		(1,673,272)
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.		
		(75,796)
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	43,174
	Municipal income taxes	452,640
	Miscellaneous	(8,641)
	Special assessments	(159,390)
	Intergovernmental	<u>(1,019)</u>
		326,764
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	507,812
	Capital lease principal paid	<u>193,290</u>
		1,464,640
The issuance of long-term debt, bonds and capital leases, provide current financial resources to governmental funds but increases long-term liabilities in the statement of net position.		
		(1,059,834)
In the statement of activities, interest is accrued on outstanding debt, whereas in governmental funds, an interest expenditure is reported when due.		
		(2,251)
Contractually required contributions are reported as expenditures in governmental funds; however, the statement of net position reports these amounts as deferred outflows of resources.		
		1,470,007
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		
		(2,299,657)
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.		
		<u>(201,964)</u>
Change in net position of governmental activities		<u>\$ (2,431,930)</u>

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, 2016

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues				
Property and other local taxes	\$ 1,817,368	\$ 1,908,985	\$ 1,664,597	\$ (244,388)
Municipal income taxes	8,793,313	8,828,244	8,977,212	148,968
Intergovernmental	924,691	928,365	944,030	15,665
Charges for services	1,993,089	2,001,007	2,034,772	33,765
Fines, licenses and permits	939,191	942,922	958,833	15,911
Interest	5,086	5,106	5,192	86
Miscellaneous	202,661	203,466	206,899	3,433
Total revenue	14,675,398	14,818,095	14,791,535	(26,560)
Expenditures				
Current				
Security of persons and property	9,309,730	9,146,660	9,095,188	51,472
Public health and welfare	337,614	346,639	341,317	5,322
Leisure time activities	191,358	195,108	194,942	166
Community environment	2,942,623	2,927,698	2,901,987	25,711
General government	2,380,373	2,415,653	2,385,795	29,858
Total expenditures	15,161,698	15,031,758	14,919,229	112,529
Excess (deficiency) of revenues over (under) expenditures	(486,300)	(213,663)	(127,694)	85,969
Other financing sources (uses)				
Transfers-out	-	(300,000)	(300,000)	-
Advance out	-	(207,025)	(25,000)	182,025
Total other financing sources (uses)	-	(507,025)	(325,000)	182,025
Excess (deficiency) of revenues over (under) expenditures and other sources (uses)	(486,300)	(720,688)	(452,694)	267,994
Prior year encumbrances	21,596	21,596	21,596	-
Fund balance, at beginning of year	740,582	740,582	740,582	-
Fund balance, at end of year	\$ 275,878	\$ 41,490	\$ 309,484	\$ 267,994

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, 2016

Assets	
Equity in pooled cash and cash equivalents	\$ 76,018
Total assets	<u>\$ 76,018</u>
Liabilities	
Due to others	\$ 76,018
Total liabilities	<u>\$ 76,018</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, 2016

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, 2016

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, 2016

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, 2016

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, 2016

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, 2016, but which were levied to finance 2017 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, 2016

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 adopted Government Accounting Standards Board (GASB) Statement No. 79, "Certain External Investment Pools and Pool Participants." The City measures their investment in Star Ohio at the net asset value (NAV) per share provided by Star Ohio. The NAV per share is calculated on an amortized cost basis that provides an NAV per share that approximates fair value.

For the year ended 2016, there were no limitations or restrictions on any participant withdrawals due to redemption notice periods, liquidity fees, or redemption gates. However, notice must be given 24 hours in advance of all deposits and withdrawals exceeding \$ 25 million. STAR Ohio reserves the right to limit the transaction to \$ 50 million, requiring the excess amount to be transacted the following business day(s), but only to the \$ 50 million limit. All accounts of the participant will be combined for these purposes.

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

	Actual Interest Credited	Amount Assigned from Other City Funds
General Fund	<u>\$ 5,467</u>	<u>\$ 109</u>

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.

CITY OF PARMA HEIGHTS, OHIO
 CUYAHOGA COUNTY
 NOTES TO THE BASIC FINANCIAL STATEMENTS
 FOR THE YEAR ENDED DECEMBER 31, 2016

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

I. PREPAID ITEMS

Payments made to vendors for services that will benefit periods beyond December 31, 2016 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.

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, 2016

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, 2016

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 \$ 3,729,880 as restricted, of which \$ 2,737,534 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, 2016

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 2016, the City did not have any extraordinary items.

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	\$ (452,694)
Adjustments, increase (decrease)	
Revenue accruals	282,166
Expenditure accruals	(355,069)
Encumbrances	24,804
Funds budgeted separately	(54,087)
GAAP basis, as reported	\$ (554,880)

CITY OF PARMA HEIGHTS, OHIO
CUYAHOGA COUNTY

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2016

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

During 2016, the City implemented Governmental Accounting Standards Board (GASB) Statement No. 72, “Fair Value Measurement and Application” The objective of this Statement is to improve financial reporting by clarifying the definition of fair value for financial reporting purposes, establishing general principles for measuring fair value, providing additional fair value application guidance, and enhancing disclosures about fair value measurements. These improvements are based in part on the concepts and definitions established in Concepts Statement No. 6, Measurement of Elements of Financial Statements, and other relevant literature. The implementation of GASB Statement No. 72 did not have an effect on the financial statement of the City.

GASB Statement No. 73, “Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68.” The principal objective of this Statement is to improve the usefulness of information for decisions made by the various users of the general purpose external financial reports (financial reports) of governments whose employees—both active employees and inactive employees—are provided with pensions that are not within the scope of Statement No. 68, *Accounting and Financial Reporting for Pensions*, as amended. The implementation of GASB Statement No. 73 did not have an effect on the financial statement of the City.

GASB Statement No. 76, “The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments.” The objective of this Statement is to identify—in the context of the current governmental financial reporting environment—the sources of accounting principles used to prepare financial statements of state and local governmental entities in conformity with generally accepted accounting principles (GAAP) and the framework for selecting those principles. The implementation of GASB Statement No. 76 did not have an effect on the financial statement of the City.

GASB Statement No. 77, “Tax Abatement Disclosures.” The objective of this Statement is to provide financial statement users with essential information about the nature and magnitude of the reduction in tax revenues through tax abatement programs. The City incorporated the corresponding GASB Statement No 77 guidance into their 2016 financial statements; however, there is no effect on the beginning net position.

GASB Statement No 79, “Certain External Investment Pools and Pool Participants” establishes accounting and financial reporting standards for qualifying external investment pools that elect to measure for financial reporting purposes all of their investments at amortized cost. This Statement provides accounting and financial reporting guidance and also establishes additional note disclosure requirements for governments that participate in those pools. The City incorporated the corresponding GASB Statement No 79 guidance into their 2016 financial statements; however, there is no effect on the beginning net position.

CITY OF PARMA HEIGHTS, OHIO
 CUYAHOGA COUNTY
 NOTES TO THE BASIC FINANCIAL STATEMENTS
 FOR THE YEAR ENDED DECEMBER 31, 2016

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

In 2015, the City implemented 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”, which required the reporting of net pension liability associated with the City’s pension plans. During 2016, the Ohio Police and Fire Pension Fund (OP&F) provided a revision to the census file to its actuary. This revision resulted in an adjustment to the net pension liability reported in the prior year and had the following effect on the City’s net position as reported December 31, 2015.

The City has a restatement resulting from a clarification from the County of the taxable status of a parcel of land owned by the City as further discussed in Note 20. As a result, the City has restated net position and the fund balance of the General Fund at December 31, 2015.

	General Fund
Fund balance December 31, 2015	\$ 934,013
Adjustment:	
Clarification of property taxable status	(308,877)
Restated fund balance December 31, 2015	\$ 625,136

	Governmental Activities
Net position December 31, 2015	\$ 15,552,817
Adjustments:	
Net pension liability	(326,729)
Clarification of property taxable status	(308,877)
Restated net position December 31, 2015	\$ 14,917,211

NOTE 4 – ACCOUNTABILITY AND COMPLIANCE

At December 31, 2016, the Capital Projects funds had deficit fund balance of \$ 2,303,662. 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.

CITY OF PARMA HEIGHTS, OHIO
CUYAHOGA COUNTY

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2016

NOTE 5 – 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	\$ 35,493	\$ -	\$ -	\$ 830	\$ 36,323
Inventories and supplies	43,008	-	-	111,323	154,331
Total nonspendable	78,501	-	-	112,153	190,654
Restricted for					
Debt service	-	389,501	-	-	389,501
Capital improvements	-	-	-	161,954	161,954
Highway and streets	-	-	-	75,607	75,607
Public safety	-	-	-	98,434	98,434
Recreation	-	-	-	29,355	29,355
Other purposes	2,540	-	-	5,769	8,309
Total restricted	2,540	389,501	-	371,119	763,160
Committed for					
Ambulance billing	4,021	-	-	-	4,021
Total committed	4,021	-	-	-	4,021
Assigned for					
Encumbrances	13,172	-	-	-	13,172
Subsequent year appropriations.	248,218	-	-	-	248,218
Other purposes	59	-	-	-	59
Total assigned	261,449	-	-	-	261,449
Unassigned (deficit)	(276,255)	-	(2,303,662)	-	(2,579,917)
Total fund balance	\$ 70,256	\$ 389,501	\$ (2,303,662)	\$ 483,272	\$ (1,360,633)

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.

CITY OF PARMA HEIGHTS, OHIO
CUYAHOGA COUNTY
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2016

NOTE 6 – DEPOSITS AND INVESTMENTS (continued)

A. LEGAL REQUIREMENTS (continued)

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.

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.

CITY OF PARMA HEIGHTS, OHIO
 CUYAHOGA COUNTY
 NOTES TO THE BASIC FINANCIAL STATEMENTS
 FOR THE YEAR ENDED DECEMBER 31, 2016

NOTE 6 – DEPOSITS AND INVESTMENTS (continued)

A. LEGAL REQUIREMENTS (continued)

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 \$ 654,138 and the bank balance was \$ 910,310. Of the bank balance, \$ 553,729 is collateralized by federal depository insurance and \$ 356,581 was uninsured. Of the remaining balance, \$ 356,581 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, 2016, the City had the following investments.

	Maturities	Fair Value
Investment in STAR Ohio	51.6 days	\$ 475,925

The City categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets. Level 2 inputs are significant other observable inputs. Level 3 inputs are significant unobservable inputs. As discussed in the Note 1 G, STAR Ohio is reported at its share price.

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.

CITY OF PARMA HEIGHTS, OHIO
CUYAHOGA COUNTY
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2016

NOTE 6 – DEPOSITS AND INVESTMENTS (continued)

E. CREDIT RISK

The City follows the Ohio Revised Code that limits its investment choices. As of December 31, 2016, 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, 2016 was 100 percent invested in STAR Ohio.

NOTE 7 – RECEIVABLES

Receivables at December 31, 2016, 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 \$ 2,222,942 in the Bond Retirement Fund. Of the special assessments balance at December 31, 2016, \$ 2,168,542 is in ongoing litigation. The litigation relates to a commercial development for which the City provided services including changes to existing roadways, curbs, sewers, and other construction. The original cost of the construction was \$ 3,743,191 and was payable over a 20-year period beginning in 2007 and extending until 2026. The original developer went bankrupt and the property was subsequently purchased by a bank at a Sheriff's auction. The property is currently in receivership. The City filed a motion with the court in an attempt to obtain priority status as a creditor of the original developer as did other third-party creditors. The court has thus far determined the City not to have a priority in the event of liquidation of the assets by the receiver. The City currently has an appeal outstanding with an appellate court. Oral arguments have taken place as of February 2017 and the City is awaiting a decision by the court.

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 2016 for real and public utility property taxes represents collections of the 2015 taxes.

The 2016 real property taxes are levied after October 1, 2016, on the assessed value as of January 1, 2016, the lien date. Assessed values are established by state law at 35 percent of appraised market value. 2016 real property taxes are collected in and intended to finance 2017.

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, 2016

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. 2016 public utility property taxes became a lien December 31, 2015, are levied after October 1, 2016, and are collected in 2017 with real property taxes.

The full tax rate for all City operations for the year ended December 31, 2016, was \$10.00 per \$1,000 of assessed value. The assessed values of real and tangible personal property upon which 2016 property tax receipts were based are as follows:

Real property - 2016	
Residential/agricultural	\$ 227,309,440
Other real estate	74,237,350
Tangible personal property - 2016	
Public utilities	6,504,500
Total valuation	\$ 308,051,290

Property tax receivable represents real and public utility taxes and outstanding delinquencies which are measurable as of December 31, 2016 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	\$ 204,320
Gasoline tax	316,490
Grants	8,671
Local government	248,523
Motor vehicle	60,500
Auto registration	67,500
Miscellaneous	71,980
	\$ 977,984

CITY OF PARMA HEIGHTS, OHIO
CUYAHOGA COUNTY

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2016

NOTE 8 – CAPITAL ASSETS

Capital asset activity for the year ended December 31, 2016, was as follows:

	Balance 12/31/15	Additions	Disposals	Balance 12/31/16
Governmental activities				
Nondepreciable capital assets				
Land	\$ 1,421,777	\$ -	\$ -	\$ 1,421,777
Construction in process	822,079	375,791	899,446	298,424
	2,243,856	375,791	899,446	1,720,201
Depreciable capital assets				
Buildings and improvements	11,443,137	59,476	-	11,502,613
Machinery, equipment and vehicles	7,822,576	297,250	166,944	7,952,882
Infrastructure	80,681,426	1,104,596	492,668	81,293,354
Total capital assets being depreciated	99,947,139	1,461,322	659,612	100,748,849
Less accumulated depreciation				
Buildings and improvements	8,015,835	214,506	-	8,230,341
Machinery, equipment and vehicles	5,742,783	446,117	140,415	6,048,485
Infrastructure	60,530,488	1,950,316	443,401	62,037,403
Total accumulated depreciation	74,289,106	2,610,939	583,816	76,316,229
Depreciable capital assets, net of accumulated depreciation	25,658,033	(1,149,617)	75,796	24,432,620
Governmental activities capital assets, net	\$ 27,901,889	\$ (773,826)	\$ 975,242	\$ 26,152,821

Depreciation expense was charged to governmental functions as follows:

General government	\$ 81,580
Security of persons and property	349,949
Transportation	1,117,983
Basic utility services	935,255
Public health and welfare	5,947
Leisure time activities	120,225
Total depreciation expense	\$ 2,610,939

CITY OF PARMA HEIGHTS, OHIO
 CUYAHOGA COUNTY
 NOTES TO THE BASIC FINANCIAL STATEMENTS
 FOR THE YEAR ENDED DECEMBER 31, 2016

NOTE 9 – NOTE PAYABLES

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

	<u>Outstanding 12/31/2015</u>	<u>Additions</u>	<u>Reductions</u>	<u>Outstanding 12/31/2016</u>
Bond anticipation notes				
Street improvement notes, series 2015-2				
Maturity 7-20-16, 1.00%	\$ 2,520,000	\$ -	\$ 2,520,000	\$ -
Street improvement notes, series 2016-2				
Maturity 7-19-17, 1.75%	-	2,245,000	-	2,245,000
	<u>\$ 2,520,000</u>	<u>\$ 2,245,000</u>	<u>\$ 2,520,000</u>	<u>\$ 2,245,000</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	2016	2017	1.375	\$ 600,000
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	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
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NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2016

NOTE 10 – LONG-TERM DEBT (continued)

Changes in the City's long-term obligations during 2016 were as follows:

	Outstanding 12/31/2015	Additions	Reductions	Outstanding 12/31/2016	Amount Due In One Year
Bond anticipation notes:					
Street improvement notes					
Maturity 5-5-16, 1.00%	\$ 700,000	\$ -	\$ 700,000	\$ -	\$ -
Maturity 5-3-17, 1.375%	-	600,000	-	600,000	600,000
	<u>700,000</u>	<u>600,000</u>	<u>700,000</u>	<u>600,000</u>	<u>600,000</u>
General obligations bonds:					
Refunding various purpose	1,287,000	-	311,000	976,000	318,000
Refunding recreational facilities improvement	1,220,000	-	173,000	1,047,000	200,000
	<u>2,507,000</u>	<u>-</u>	<u>484,000</u>	<u>2,023,000</u>	<u>518,000</u>
Special assessment bonds:					
Street improvements	4,000	-	2,000	2,000	2,000
Street improvements	95,064	-	21,812	73,252	23,066
	<u>99,064</u>	<u>-</u>	<u>23,812</u>	<u>75,252</u>	<u>25,066</u>
Ohio Public Works Commission loans:					
Concrete street reconstruction	62,467	-	17,847	44,620	17,847
Concrete street reconstruction	63,055	-	18,015	45,040	18,015
Concrete street reconstruction	119,705	-	18,417	101,288	18,417
Concrete street reconstruction	64,815	-	9,259	55,556	9,259
	<u>310,042</u>	<u>-</u>	<u>63,538</u>	<u>246,504</u>	<u>63,538</u>
Net pension liability					
OPERS	3,445,913	1,014,188	-	4,460,101	-
OP&F	13,581,499	2,441,928	-	16,023,427	-
Total net pension liability	<u>17,027,412</u>	<u>3,456,116</u>	<u>-</u>	<u>20,483,528</u>	<u>-</u>
Capital lease obligations	<u>223,411</u>	<u>459,834</u>	<u>193,290</u>	<u>489,955</u>	<u>186,725</u>
Compensated absences	<u>1,376,978</u>	<u>239,747</u>	<u>37,783</u>	<u>1,578,942</u>	<u>-</u>
	<u>\$ 22,243,907</u>	<u>\$ 4,755,697</u>	<u>\$ 1,502,423</u>	<u>\$ 25,497,181</u>	<u>\$ 1,393,329</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, 2016

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, 2016, \$ 1,965,000 of bonds outstanding are considered to be defeased.

Debt service requirements to retire bonds payable and loans payable outstanding at December 31, 2016 consisted of:

Year	Principal	Interest	Total
2017	\$ 1,206,604	\$ 56,584	\$ 1,263,188
2018	613,930	41,222	655,152
2019	610,406	27,501	637,907
2020	244,676	13,420	258,096
2021	250,676	6,802	257,478
2022	18,464	-	18,464
	\$ 2,944,756	\$ 145,529	\$ 3,090,285

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, 2016, assets under capital lease totaled \$ 994,336 with related accumulated depreciation of \$ 517,772. The leases are in effect through 2021. The leases are secured by the related property. 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, 2016.

Year	Amount
2017	\$ 200,370
2018	141,789
2019	91,194
2020	56,415
2021	28,208
Total minimum lease payments	517,976
Less amount representing interest	28,021
Net present value of minimum lease payments	\$ 489,955

NOTE 12 – INTERFUND BALANCES AND TRANSFERS

During 2016, the General Fund advanced \$ 25,000 to the Capital Projects Funds. The City received note proceeds in 2015 with \$1,191 of the proceeds to be deposited into the Debt Retirement Fund. At December 31, 2016, the Capital Projects Fund shows a due to other funds for \$26,191 and the General Fund and Debt Retirement Fund shows a due from other funds for these amounts.

At December 31, 2016, Council authorized the transfers of \$ 325,000 from the General Fund and a non-major fund to the Debt Retirement Fund, Capital Projects Fund and a non-major fund to cover expenditures. In preparing these statements, a GAAP Basis only transfer of \$ 300,130 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, 2016

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, 2016

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, 2016

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
2016 Statutory maximum contribution rates	
Employer	14.0%
Employee	10.0%
2016 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 \$ 366,392 for 2016. Of this amount, \$ 32,786 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, 2016

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:

	Police	Firefighters
2016 Statutory maximum contribution rates		
Employer	19.50%	24.00%
Employee	12.25%	12.25%
 2016 Actual contribution rates		
Employer		
Pension	19.00%	23.50%
Post-employment health care benefits	0.50%	0.50%
Total employer	19.50%	24.00%
 Employee	 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 \$ 1,103,615 for 2016. Of this amount \$ 94,461 is reported as an intergovernmental payable.

CITY OF PARMA HEIGHTS, OHIO
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 NOTES TO THE BASIC FINANCIAL STATEMENTS
 FOR THE YEAR ENDED DECEMBER 31, 2016

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, 2015, 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, 2015, and was determined by rolling forward the total pension liability as of January 1, 2015, to December 31, 2015. 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	\$ 4,460,101	\$ 16,023,427	\$ 20,483,528
Pension expense	\$ 515,464	\$ 1,784,193	\$ 2,299,657
Proportion share of the net pension liability			
Prior measurement date	0.028582%	0.255863%	
Current measurement date	0.026022%	0.249079%	
	<u>-0.002560%</u>	<u>-0.006784%</u>	

At December 31, 2016, 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	\$ 1,325,955	\$ 2,619,359	\$ 3,945,314
Difference between expected and actual experience	202	-	202
Difference between employer contributions and proportionate share of contributions	851	2,511	3,362
City contributions subsequent to the measurement date	366,392	1,103,615	1,470,007
Total deferred outflows of resources	<u>\$ 1,693,400</u>	<u>\$ 3,725,485</u>	<u>\$ 5,418,885</u>
Deferred inflows of resources			
Difference between expected and actual experience	\$ 89,810	\$ 42,929	\$ 132,739
Difference between employer contributions and proportionate share of contributions	-	1,452	1,452
Change in proportionate share percentage	225,283	278,790	504,073
Total deferred inflows of resources	<u>\$ 315,093</u>	<u>\$ 323,171</u>	<u>\$ 638,264</u>

CITY OF PARMA HEIGHTS, OHIO
 CUYAHOGA COUNTY
 NOTES TO THE BASIC FINANCIAL STATEMENTS
 FOR THE YEAR ENDED DECEMBER 31, 2016

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)

\$ 1,470,007 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
2017	\$ 185,933	\$ 626,253	\$ 812,186
2018	208,408	626,253	834,661
2019	320,977	626,253	947,230
2020	296,670	483,438	780,108
2021	(31)	(53,369)	(53,400)
Thereafter	(42)	(10,129)	(10,171)
Total	<u>\$ 1,011,915</u>	<u>\$ 2,298,699</u>	<u>\$ 3,310,614</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, 2015, 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, 2016

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 2015.

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 2015 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	20.70%	5.84%
Real estate	10.00%	4.25%
Private equity	10.00%	9.25%
International equities	18.30%	7.40%
Other investments	18.00%	4.59%
Total	<u>100.00%</u>	<u>5.27%</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, 2016

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	\$ 7,106,298	\$ 4,460,101	\$ 2,228,159

In October 2016, The OPERS Board adopted certain assumption changes which will impact their annual actuarial valuation prepared as of December 31, 2016. The most significant change is a reduction in the discount rate 8.0 percent to 7.5 percent. Although the exact amount of these changes is not known, the impact on the City's net pension liability is expected to be significant.

F- ACTUARIAL ASSUMPTIONS – OP&F

OP&F's total pension liability as of December 31, 2015 is based on the results of an actuarial valuation date of January 1, 2015, 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, 2015, are presented below:

Valuation Date	January 1, 2015
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, 2016

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, 2015 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%	
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, 2016

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.

	1% Decrease (7.25%)	Current Discount Rate (8.25%)	1% Increase (9.25%)
City's proportionate share of the net pension liability	\$ 21,132,754	\$ 16,023,427	\$ 11,695,324

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.

In March 2016, OPERS received two favorable rulings from the Internal Revenue Service allowing OPERS to consolidate all health care assets into the OPERS 115 Health Care Trust. Transition to the new health care trust structure was completed July 1, 2016. As of December 31, 2016, OPERS maintains a cost-sharing, multiple-employer defined benefit post-employment health care trust, which funds multiple health care plans including medical coverage, prescription drug coverage and deposits to a Health Reimbursement Arrangement 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. OPERS funds a Retiree Medical Account (RMA) for participants in the Member-Directed Plan. At retirement or refund, participants can be reimbursed for qualified medical expenses from their vested RMA balance.

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 2015 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.

CITY OF PARMA HEIGHTS, OHIO
CUYAHOGA COUNTY
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2016

NOTE 14 – POST-EMPLOYMENT BENEFITS (continued)

A. OHIO PUBLIC EMPLOYEES RETIREMENT SYSTEM (continued)

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.

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 2016. 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 2016 was 4.5 percent.

The City's contributions to OPERS allocated to fund health care for the years ended December 31, 2016, 2015, and 2014, were \$ 59,358, \$ 64,659, and \$ 74,000, respectively; 92.1 percent has been contributed for 2016 and 100 percent for 2015 and 2014.

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, 2016

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, 2016 through December 31, 2016. 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, 2016, 2015, and 2014, were \$ 1,125,865, \$ 1,096,641, and \$ 1,129,675, respectively, of which \$ 26,352, \$ 25,617, and \$ 26,405, respectively, was allocated to the health care plan. 91 percent has been contributed for 2016 and 100 percent for 2015 and 2014.

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, 2016

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, 2016, 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, 2016

NOTE 17 – CONSTRUCTION COMMITMENTS

As of December 31, 2016, the City had contractual commitments as follows:

Project	Project Authorization	Expended to Date	Outstanding Commitments
Finance software upgrade	\$ 55,619	\$ 33,620	\$ 21,999

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 2016 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.

	2016	2015
Unpaid claims, beginning of year	\$ 160,200	\$ 183,183
Incurred claims	1,646,358	1,816,684
Claim payments	(1,612,441)	(1,839,667)
Unpaid claims, end of year	\$ 194,117	\$ 160,200

NOTE 19 – TAX ABATEMENT

During 2016 the City of Parma Heights, pursuant to City Ordinance No. 2003-30 and City Ordinance No. 2013-14, offered tax abatement incentives through a Community Reinvestment Area Program. Pursuant to Ohio Revised Code (ORC) Section 3735.66 the City Community Reinvestment Area was established, having met the requirements of ORC Section 3735.65-3735.70; and designated as the entire City boundaries (as depicted in Exhibit A attached to Ordinance 2013-14, passed March 25, 2013). Only residential, commercial and/or industrial properties consistent with the applicable zoning regulations within the Community Reinvestment Area are eligible for exemptions under this program.

CITY OF PARMA HEIGHTS, OHIO
CUYAHOGA COUNTY
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2016

NOTE 19 – TAX ABATEMENT (continued)

Ordinance No. 2003-30, adopted September 22, 2003, had designated a section of five abutting parcels; which were the site of four apartment complexes, as Parma Heights CRA #1. Ordinance No. 2013-14 designated the entire city as Parma Heights CRA #2.

The purpose of each CRA is to provide a reasonable incentive for property owners to reinvest in their properties through remodeling or new construction. The goal of this program is to encourage residential and commercial property improvements and redevelopment; as a means to counteract the growth of age-related deterioration of property values, the lack of any new construction, and the lack of any significant residential or commercial rehabilitation. The long-term goal would be to stabilize and improve property values, and encourage economic development through provision of attractive housing options and job creation through revitalization of our commercial corridor.

The Community Reinvestment Area Program offers tax abatement incentives in exchange for physical improvements to the real properties. The tax incentives are based on the theory of abating the property tax that would otherwise have been due on the value of the real property improvements. The maximum incentive available to residential property owners is an abatement of up to 100% of the value of the improvements up to ten years. Commercial property owners are eligible for up to 100% abatement of the value of the improvements up to a maximum of twelve years.

Through 2016, one commercial residential property owner has opted to participate in the abatement originally offered through CRA #1. The market value of this parcel has been reduced by \$756,100 during 2016; resulting in the taxable valuation (based on the County Auditor's 35% of market value methodology) being reduced by \$264,635. This decrease in taxable valuation resulted in a reduction in overall property tax on this parcel of \$24,231. The portion of property tax allocated to the City of Parma Heights, from the total property tax paid on this parcel in 2016, was reduced by approximately \$3,635 due to this abatement program.

Through 2016, three single family residential properties have taken advantage of the abatement offered through CRA #2. The market value abated for the three parcels in total amounted to only \$4,900 during 2016.

NOTE 20 – SUBSEQUENT EVENT

In May of 2017, the City paid the \$ 600,000 Street Improvement Bond Anticipation Notes and issued Street Improvement General Obligation Bond Anticipation Notes in the amount of \$ 550,000 for the purpose of paying a portion of the costs of reconstructing Stumph Road from Snow Road to Pearl Road

The City was informed on April 28, 2017 regarding a clarification of the taxable status of a parcel of land owned by the City. The parcel in question is the site of the City facility that has been in use as an athletic center operated by a private concern under a management agreement with the City. The City has now been informed that the use in question constitutes a taxable usage, and back taxes in the amount of \$ 321,930 have been assessed to the parcel. The City has entered into a tax payment agreement with the County to pay the assessed amount over a twenty-four month period.

In June 2017, the City's council approved the issuance of \$ 1,995,000 Special Assessment Bond Anticipation Notes to retire the outstanding Notes of \$ 2,245,000. The Notes will be issued in July 2017.

REQUIRED SUPPLEMENTARY INFORMATION

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CITY OF PARMA HEIGHTS, OHIO
CUYAHOGA COUNTY

REQUIRED SUPPLEMENTARY INFORMATION

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

	<u>2015</u>	<u>2014</u>	<u>2013</u>
City's proportion of the net pension liability	0.026022%	0.028582%	0.028582%
City's proportionate of the net pension liability	\$ 4,460,101	\$ 3,445,913	\$ 3,369,065
City's covered-employee payroll	3,234,100	\$ 3,554,250	\$ 3,770,638
City's proportionate share of the net pension liability as a percentage of its covered -employee payroll	137.91%	96.95%	89.35%
Plan fiduciary net pension as a percentage of the total pension liability			
Traditional Plan	81.08%	86.45%	86.36%
Combined Plan	116.90%	114.83%	104.56%
Member-directed Plan	103.91%		

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

	<u>2015</u>	<u>2014</u>	<u>2013</u>
City's proportion of the net pension liability	0.249079%	0.255863%	0.255863%
City's proportionate of the net pension liability	\$ 16,023,427	\$ 13,254,770	\$ 12,461,331
City's covered-employee payroll	\$ 5,066,955	\$ 5,222,800	\$ 5,070,365
City's proportionate share of the net pension liability as a percentage of its covered -employee payroll	316.23%	253.79%	245.77%
Plan fiduciary net pension as a percentage of the total pension liability	66.77%	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 FOUR YEARS (1)

	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>
Contractually required contribution	\$ 366,392	\$ 388,092	\$ 426,510	\$ 490,183
Contributions in relation to the contractually required contributions	<u>(366,392)</u>	<u>(388,092)</u>	<u>(426,510)</u>	<u>(490,183)</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
City covered-employee payroll	3,053,267	3,234,100	3,554,250	3,770,638
Contributions as a percentage of covered-employee payroll	12.00%	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>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>
Contractually required contribution	\$ 1,103,615	\$ 1,071,019	\$ 1,069,195	\$ 909,139
Contributions in relation to the contractually required contributions	<u>(1,103,615)</u>	<u>(1,071,019)</u>	<u>(1,069,195)</u>	<u>(909,139)</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
City covered-employee payroll	5,212,124	5,066,955	5,222,800	5,070,365
Contributions as a percentage of covered-employee payroll	21.17%	21.14%	20.47%	17.93%

<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>	<u>2007</u>
\$ 771,295	\$ 758,916	\$ 729,737	\$ 723,961	\$ 772,793	\$ 482,677
<u>(771,295)</u>	<u>(758,916)</u>	<u>(729,737)</u>	<u>(723,961)</u>	<u>(772,793)</u>	<u>(482,677)</u>
<u>\$ -</u>					
5,164,376	5,058,283	4,892,978	4,857,232	5,153,405	4,752,553
14.93%	15.00%	14.91%	14.90%	15.00%	10.16%

**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, 2016, 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 29, 2017.

Internal Control over Financial Reporting

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

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

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

Honorable Mayor and
Members of City Council
Parma Heights, Ohio

Compliance and Other Matters

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

Purpose of this Report

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

Ciuni + Panichi, Inc.

Cleveland, Ohio
June 29, 2017

City of Parma Heights

Schedule of Findings

December 31, 2016

1. Summary of Auditor’s Results

Type of Financial Statement Opinion	Unmodified
Were there any material weaknesses reported at the financial statement level (GAGAS)?	No
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

None noted.

City of Parma Heights

Schedule of Prior Year Findings

December 31, 2016

Finding No.	Finding Summary	Fully Corrected	Explanation
2015-001	<p>Material Weakness:</p> <p>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.</p> <p>Criteria: The internal control structure and processes should provide for the accurate cutoff procedures at year-end.</p> <p>Cause: Controls were not adequate to ensure proper cutoff.</p> <p>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.</p> <p>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.</p> <p>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.</p>	Yes	No material audit adjustments were required related to this matter in 2016.

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Dave Yost • Auditor of State

CITY OF PARMA HEIGHTS

CUYAHOGA COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

CERTIFIED
SEPTEMBER 28, 2017