



**Mary Taylor, CPA**  
Auditor of State



**CITY OF PARMA HEIGHTS  
CUYAHOGA COUNTY**

**TABLE OF CONTENTS**

<b>TITLE</b>	<b>PAGE</b>
Independent Accountants' Report.....	1
Management's Discussion and Analysis For the Year Ended December 31, 2007 .....	3
Basic Financial Statements	
Government-Wide Financial Statements	
Statement of Net Assets For the Year Ended December 31, 2007 .....	12
Statement of Activities For the Year Ended December 31, 2007 .....	13
Fund Financial Statements	
Balance Sheet – Governmental Funds For the Year Ended December 31, 2007 .....	14
Reconciliation of Total Governmental Fund Balance to Net Assets of Governmental Activities For the Year Ended December 31, 2007 .....	15
Statement of Revenues, Expenditures and Changes in Fund Balances of Governmental Activities For the Year Ended December 31, 2007 .....	16
Statement of Revenues, Expenditures, and Changes in Fund Balances – In Fund Balances of Governmental Funds to the Statement of Activities For the Year Ended December 31, 2007 .....	17
Statement of Revenues, Expenditures, and Changes in Fund Balances – Budget (Non-GAAP Basis) and Actual – General Fund For the Year Ended December 31, 2007 .....	18
Statement of Fiduciary Assets and Liabilities – Agency Fund For the Year Ended December 31, 2007 .....	19
Notes to the Basic Financial Statements .....	20
Management's Discussion and Analysis For the Year Ended December 31, 2006 .....	45

**CITY OF PARMA HEIGHTS  
CUYAHOGA COUNTY**

**TABLE OF CONTENTS**

<b>TITLE</b>	<b>PAGE</b>
Basic Financial Statements	
Government-Wide Financial Statements	
Statement of Net Assets For the Year Ended December 31, 2006 .....	54
Statement of Activities For the Year Ended December 31, 2006 .....	55
Fund Financial Statements	
Balance Sheet – Governmental Funds For the Year Ended December 31, 2006 .....	56
Reconciliation of Total Governmental Fund Balance to Net Assets of Governmental Activities For the Year Ended December 31, 2006 .....	57
Statement of Revenues, Expenditures and Changes in Fund Balances of Governmental Activities For the Year Ended December 31, 2006 .....	58
Statement of Revenues, Expenditures, and Changes in Fund Balances – In Fund Balances of Governmental Funds to the Statement of Activities For the Year Ended December 31, 2006 .....	59
Statement of Revenues, Expenditures, and Changes in Fund Balances – Budget (Non-GAAP Basis) and Actual – General Fund For the Year Ended December 31, 2006 .....	60
Statement of Fiduciary Assets and Liabilities – Agency Fund For the Year Ended December 31, 2006 .....	61
Notes to the Basic Financial Statements .....	62
Independent Accountants’ Report on Internal Control Over Financial Reporting and on Compliance And Other Matters Required by Government Auditing Standards.....	87
Schedule of Findings.....	89
Schedule of Prior Audit Findings.....	95



# Mary Taylor, CPA

Auditor of State

## INDEPENDENT ACCOUNTANTS' REPORT

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

To the City Council:

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the City of Parma Heights, Cuyahoga County, Ohio (the City), as of and for the years ended December 31, 2007 and December 31, 2006, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the City of Parma Heights, Cuyahoga County, Ohio, as of December 31, 2007 and December 31, 2006, and the respective changes in financial position, thereof and the budgetary comparison for the General Fund for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated January 16, 2009, on our consideration of the City's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. While we did not opine on the internal control over financial reporting or on compliance, that report describes the scope of our testing of internal control over financial reporting and compliance and the results of that testing. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*. You should read it in conjunction with this report in assessing the results of our audit.

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

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

**Mary Taylor, CPA**  
Auditor of State

January 16, 2009

CITY OF PARMA HEIGHTS, OHIO  
CUYAHOGA COUNTY  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED DECEMBER 31, 2007  
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, 2007. 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 2007 are as follows:

- Total net assets decreased by \$ 2,357,395 or 7.7% in 2007.
- Capital assets, net of depreciation, decreased by \$ 2,058,189 or 6.1% in 2007.
- Current and other assets increased by \$ 79,495 or 0.7% in 2007.
- Total liabilities increased by \$ 378,701 or 2.5% in 2007.
- Total equity in pooled cash and cash equivalents increased by \$ 433,031.

**Using This Financial Report**

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

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

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

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

While this document contains information about the funds used by the City to provide services to our residents, the view of the City as a whole considers all financial transactions and measures how the City did financially during fiscal year 2007. The *Statement of Net Assets* and the *Statement of Activities* include assets and liabilities using the accrual basis of accounting similar to the accounting method used by the private sector. The basis of this accounting takes into account all of the current year's revenues and expenses regardless of when the cash is received or paid.

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

CITY OF PARMA HEIGHTS, OHIO  
CUYAHOGA COUNTY  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED DECEMBER 31, 2007  
UNAUDITED

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

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

**Reporting The City Of Parma Heights' Most Significant Funds**

**Fund Financial Statements**

The presentation of the City's major funds begins on page 14. Fund financial reports provide detailed information about the City's major funds based on the restrictions on the use of monies. The City has established many funds, which account for the multitude of services, facilities and infrastructure provided to our residents. However, these fund financial statements focus on the City's most significant funds. In the case of Parma Heights, the major governmental funds are the general fund and the bond retirement fund.

**Governmental Funds**

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



CITY OF PARMA HEIGHTS, OHIO  
 CUYAHOGA COUNTY  
 MANAGEMENT'S DISCUSSION AND ANALYSIS  
 FOR THE YEAR ENDED DECEMBER 31, 2007  
 UNAUDITED

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

The Statement of Net Assets provides the perspective of the City as a whole. Table 1 provides a summary of the City's net assets for 2007 compared to 2006.

	2007	2006
<b>Assets</b>		
Current and other assets	\$ 12,263,659	\$ 12,184,164
Capital assets, net	31,743,876	33,802,065
<b>Total assets</b>	<b>44,007,535</b>	<b>45,986,229</b>
<b>Liabilities</b>		
Current liabilities	4,502,577	4,460,694
Long term liabilities		
Due within one year	3,491,498	2,958,236
Due in more than one year	7,766,621	7,963,065
<b>Total liabilities</b>	<b>15,760,696</b>	<b>15,381,995</b>
<b>Net assets</b>		
Invested in capital assets, net of related debt	24,185,165	25,988,024
Restricted	1,776,664	1,997,890
Unrestricted	2,285,010	2,618,320
<b>Total net assets</b>	<b>\$ 28,246,839</b>	<b>\$ 30,604,234</b>

As noted previously, net assets may serve over time as a useful indicator of a government's financial position. For the City of Parma Heights, total assets exceed total liabilities by \$ 28,246,839 as of December 31, 2007.

The largest portion of the City's net assets (85.6%) reflects investments in capital assets (land, buildings, machinery, equipment, construction in progress, vehicles and infrastructure) less any related debt to acquire those assets that is still outstanding. These capital assets are used to provide services to the City's residents; consequently, these assets are not available for future spending. Although the City's investment in capital assets is reported net of related debt, it should be noted that resources to repay such debt must be provided from other sources since the capital assets themselves cannot be used to liquidate these liabilities.

Total assets decreased by \$ 1,978,694 from 2006 to 2007, and the City's total liabilities increased by \$ 378,701. The decrease in assets is the net result of increases to the current assets of \$ 79,495 during 2007, offset by deletions and depreciation of capital assets during the year of \$ 2,058,189.

CITY OF PARMA HEIGHTS, OHIO  
CUYAHOGA COUNTY

MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED DECEMBER 31, 2007  
UNAUDITED

The increase in liabilities of \$ 378,701 has occurred in part due to the ongoing financing of a roadway/utility construction project that remains in short term financing in anticipation of the issuance of long term special assessment bonds. Capitalized interest occurring when the short-term debt has been refinanced with new short-term debt causing the principal to increase from the prior year.

The total net assets of the City's activities decreased by \$ 2,357,395 during the current year. The decrease was primarily due to depreciation taken against capital assets in 2007.

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

**Table 2**  
Changes in Net Assets

	<u>2007</u>	<u>2006</u>
Revenues		
Program revenues		
Charges for services and sales	\$ 2,017,094	\$ 2,999,906
Operating grants and contributions	89,962	11,028
Capital grants and contributions	393,082	304,222
Total program revenues	<u>2,500,138</u>	<u>3,315,156</u>
General revenues		
Property taxes and special assessment	4,185,530	3,879,085
Income taxes	8,240,772	8,292,094
Grants and entitlements	2,518,286	1,316,672
Interest	94,520	75,312
Miscellaneous	193,215	100,169
Total general revenues	<u>15,232,323</u>	<u>13,663,332</u>
Total revenues	<u>17,732,461</u>	<u>16,978,488</u>
Program expenses		
Security of persons and property	8,237,736	7,797,456
Public health and welfare	213,438	383,641
Leisure time activities	1,312,499	1,295,221
Community environment	2,438,334	2,270,044
Basic utility services	1,895,952	1,895,462
Transportation	2,240,896	1,657,887
General government	2,992,200	2,545,147
Interest	412,801	469,357
Total program expenses	<u>19,743,856</u>	<u>18,314,215</u>
Deficiency before transfers	<u>(2,011,395)</u>	<u>(1,335,727)</u>
Transfers	<u>(346,000)</u>	<u>-</u>
Decrease in net assets	<u>(2,357,395)</u>	<u>(1,335,727)</u>
Net asset at beginning of year	<u>30,604,234</u>	<u>31,939,961</u>
Net assets at end of year	<u>\$ 28,246,839</u>	<u>\$ 29,268,507</u>

CITY OF PARMA HEIGHTS, OHIO  
 CUYAHOGA COUNTY  
 MANAGEMENT'S DISCUSSION AND ANALYSIS  
 FOR THE YEAR ENDED DECEMBER 31, 2007  
 UNAUDITED

**Governmental Activities**

Several revenue sources fund our governmental activities with property tax and income tax being the largest contributors. In 2007 property tax and special assessments accounted for 24.1% of total revenues, and municipal income tax accounted for 47.4%. Grants, contributions and entitlements revenue totaling \$ 2,518,286 accounts for 14.2% of total governmental activity revenue. These funds are comprised of distributions from the State and County.

Security of persons and property, including our Police and Fire Departments, accounted for \$ 8,237,736, which is 41.7% of total governmental activity expenses. General government expenses, including the executive, legislative and administrative functions of our City government activities accounted for the next highest area of expense at \$ 2,992,200 or 15.1%. The remaining 43.2% of the governmental activity expense was divided between the remaining six areas of functional expense.

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

**TABLE 3**  
 Governmental Activities

Program expenses	Total Cost	Net Expense
Security of persons and property	\$ 8,237,736	\$ 7,624,288
Public health and welfare	213,438	(669,099)
Leisure time activities	1,312,499	671,526
Community environment	2,438,334	2,225,154
Basic utility services	1,895,952	1,895,952
Transportation	2,240,896	2,090,896
General government	2,992,200	2,992,200
Interest	412,801	412,801
Total cost of services	<u>\$ 19,743,856</u>	<u>\$ 17,243,718</u>

Charges for services, operating grants and contributions, and capital grants and contributions all reduce the governmental activity expenses. For 2007 there was a difference of \$3,389,118 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 \$1,358,355 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, and various operating grants and fees charged for ambulance services.
- Leisure Time Activities Expenses were reduced by \$ 640,973 primarily through charges for services and sales for parks and recreation programs and communication tower site lease payments for tower sites located on recreation properties.
- Community Environment Expenses were reduced by \$ 213,180, in program revenue which consist of building department permit and commercial license fees and a capital grant.

CITY OF PARMA HEIGHTS, OHIO  
CUYAHOGA COUNTY  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED DECEMBER 31, 2007  
UNAUDITED

- Transportation expenses were reduced by \$1,038,980 in program revenue due primarily to charges for services and sales from the city's share of gasoline tax and motor vehicle license fees and various capital grants.
- Public health and welfare expenses were reduced by \$ 137,630 in program revenues derived primarily from miscellaneous grants.

**Financial Analysis Of The Government's Funds**

Information about the City's governmental funds begins on page 14. These funds are accounted for by using the modified accrual basis of accounting. All governmental funds had total revenues of \$ 17,582,147 and total expenditures of \$ 20,933,691. The most significant fund is the General Fund, which had fund balance at year-end of \$ 1,070,891. General Fund expenditures during the year totaled \$ 15,180,132, which exceeded revenues by \$ 889,791. A portion of this variance was offset by capital lease proceeds.

**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 2007 to reflect changes in circumstances against budgeted estimates. All recommendations for budget amendments are initially presented to the Finance Committee of Council for review before being presented to the full City Council. The whole Council then enacts the budgetary changes by adopting an Amended Appropriations Ordinance. The General Fund supports many of the City's major activities or services, such as Police and Fire Departments, the Department of Public Service, as well as the Legislative and Executive activities. The General Fund is monitored closely, looking for possible revenue short falls or overspending by individual departments.

Original budgeted revenues for the General Fund were \$ 14,694,649. The final budgeted revenue amount was \$ 15,330,182. The increase in budgeted revenues of \$ 635,533 was due to a variance between the original 2007 net revenue budget prepared in the last quarter of 2006 and the final revenue budget prepared in December 2007. Budgeted revenue increases were derived primarily from the following: an increase to property taxes of \$ 30,504, an increase in estate taxes of \$ 239,000, an increase to intergovernmental grants of \$ 59,920, and increase to fines and fees in the mayor's court of \$ 29,500, an increase to miscellaneous refunds and reimbursements of \$ 35,000, an increase to utility taxes of \$ 30,000, an increase to ambulance billing revenues of \$ 33,650, and an increase to reclassified ambulance billing revenue of \$ 744,907. The total increase to budgeted revenues was approximately \$ 1,290,760. This increase in budgeted revenue was offset by revenue decreases of \$ 290,000 in budgeted income tax revenues, \$157,975 in fines, licenses and permit revenue in the building department, and \$7,250 in state shared local government fund revenue. The final net increase in budgeted revenues was \$ 635,533. The City actually received 94.17 percent of the final budgeted revenue.

The original appropriations or expenditure estimates, for the General Fund was \$ 14,099,610, exclusive of transfers-out. The final appropriation total was \$ 14,738,069. The increase of \$ 638,459 was due to increases in the following program areas: \$ 19,232 in the area of security of person and property, \$ 162,413 in the area of community environment activities, \$ 299,820 in the area of general government, \$ 56,841 in the area of leisure time activities, and \$ 100,153 in the area of public health and welfare.

CITY OF PARMA HEIGHTS, OHIO  
 CUYAHOGA COUNTY  
 MANAGEMENT'S DISCUSSION AND ANALYSIS  
 FOR THE YEAR ENDED DECEMBER 31, 2007  
 UNAUDITED

**Capital Assets And Debt Administration**

**Capital Assets**

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

	2007	2006
Land	\$ 1,344,328	\$ 1,344,328
Construction in process	357,502	489,740
Buildings and improvements	2,717,449	2,839,847
Machinery equipment	1,966,947	1,750,277
Infrastructure	25,357,650	27,377,873
	\$ 31,743,876	\$ 33,802,065

The City's total capital assets for governmental activities decreased in 2007 by \$ 2,058,189. This decrease in valuation was derived by applying the net additions of \$457,582 against the net depreciation/loss on disposal of capital asset value for the current year of \$ 2,515,771. (See Note 7 for additional detailed information on Capital Assets).

**Debt**

As of December 31, 2007, the City of Parma Heights had \$ 8,448,119 in long-term debt obligations, comprised as shown below. Payments due within one year totaled \$ 681,498.

	2007	2006
Loans payable	\$ 893,564	\$ 968,899
Bonds payable		
General obligation bonds	5,965,000	6,415,000
Special assessment bonds	312,834	337,049
Capital lease obligations	387,313	93,093
Compensated absences	889,408	755,705
	\$ 8,448,119	\$ 8,569,746

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

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

CITY OF PARMA HEIGHTS, OHIO  
CUYAHOGA COUNTY  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED DECEMBER 31, 2007  
UNAUDITED

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

Capital lease obligations consist of the lease purchase of police cruisers, a street sweeper/vac-all and a bus used to transport senior citizens. Three police cruisers leased in 2006 will be repaid by 2008. Five police cruisers leased in 2007 will be repaid by 2010. The street sweeper/vac-all leased in 2007 will be repaid in 2014. The senior citizen bus leased in 2006 will be repaid by 2008.

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

State statutes limit the amount of general obligation debt a governmental entity may issue to 10.5% of its total assessed valuation.

Note 8, Note 9, Note 10 and Note 11 of the financial statements presents additional information about the City's debt.

### **Current Financial Outlook**

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

The City's income tax rate, which had been 2.0% since 1987, increased to 3.0% effective January 1, 2005. This increase in the income tax rate has generated a 26% increase to income tax revenue; although regional economic downturn has resulted in relatively flat income tax revenues since 2006. Municipal property taxes have remained consistent since 1988, with minor reductions as existing debt issues are retired and minor increases as property values are adjusted by the County Auditor every six years through a formal reappraisal system. The 2006 reappraisal resulted in a 9.0% increase to the City's assessed valuation.

The City is taking an aggressive position in guiding our aging community through a re-birth. As our aging population is being replaced with new young families, we are seeing the housing stock improve as new owners are making improvements. The City itself has participated and facilitated several projects to renovate existing multifamily housing, to create new housing. Recent adoption of cluster home zoning has enabled developers to construct two small housing developments where traditional single-family lot sizes would not have been practical with a third project started in 2006. Recent enactment of a Rental Property Registration and Inspection Ordinance will enhance the Building Department's code enforcement capabilities in an effort to maintain property values and improve the housing stock.

The Mayor, City Council and administration continue to work closely with our business community in an effort to both retain existing businesses, as well as maintaining an environment that will be attractive to potential business interests. The mayor in early 2008 appointed interested business owners to serve on the newly created Parma Heights Business Advisory Council. This group is intended to provide guidance to the Mayor in areas of business promotion, retention, as well as serving as a think tank to generate fresh ideas to shape the future re-development of our city.

The City has also joined the First Suburbs Consortium, a cooperative effort comprised of inner-ring suburbs surrounding the City of Cleveland, working jointly on common issues of economic development, re-development and re-invigorating older suburban areas. The City of Parma Heights is taking advantage of a First Suburbs Consortium storefront renovation program; as twelve local businesses in Parma Heights are in various stages of renovating the exteriors of their respective buildings.

CITY OF PARMA HEIGHTS, OHIO  
CUYAHOGA COUNTY  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED DECEMBER 31, 2007  
UNAUDITED

The City's most aggressive approach to facilitating a re-birth has been developing over the past four years as we work to facilitate a development of new retail, and residential units. This new mixed-use development of residential and retail will not only create new housing opportunities but will create a flow of people into our community to enjoy the retail amenities. The City has facilitated this project by adopting the legislation permitting a Planned Use Development District to accommodate the mixed use zoning on this site. In addition the City has installed utilities and constructed two streets on a special assessment basis to facilitate this mixed-use development.

Construction on the residential portion of this project is scheduled to begin during the 2008 construction season. The residential component when complete will include approximately 30 single family homes and 100 townhouse units. Commercial redevelopment planned for this project will replace outdated retail units, and is viewed with much anticipation as a catalyst for future re-development along the City's commercial corridor.

**Contacting the City's Finance Department**

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

CITY OF PARMA HEIGHTS, OHIO  
 CUYAHOGA COUNTY, OHIO  
 STATEMENT OF NET ASSETS  
 DECEMBER 31, 2007

	Governmental Activities
<b>Assets</b>	
Equity in pooled cash	\$ 1,545,856
Accounts receivable	1,156
Due from other governments	1,390,608
Inventories and supplies	158,636
Prepaid items	92,276
Taxes receivable	8,658,627
Special assessments receivable	416,500
Capital assets	
Nondepreciable capital assets	1,701,830
Depreciable capital assets, net	30,042,046
<b>Total assets</b>	<b>44,007,535</b>
 <b>Liabilities</b>	
Accounts and contracts payable	317,946
Claims payable	123,733
Accrued salaries, wages and benefits	277,337
Accrued interest payable	37,433
Matured bonds and coupons payable	23,126
Due to other governments	699,124
Due to agency fund	206,900
Deferred revenue	2,816,978
Long term liabilities	
Due within one year	3,491,498
Due in more than one year	7,766,621
<b>Total liabilities</b>	<b>15,760,696</b>
 <b>Net assets</b>	
Invested in capital assets, net of related debt	21,375,165
Restricted for:	
Debt service	976,099
Capital projects	107,075
Highway and streets	600,044
Public safety	38,695
Recreation	54,751
Unrestricted	5,095,010
<b>Total net assets</b>	<b>\$ 28,246,839</b>

See the accompanying notes to the Basic Financial Statements.



CITY OF PARMA HEIGHTS, OHIO  
 CUYAHOGA COUNTY, OHIO  
 STATEMENT OF ACTIVITIES  
 FOR THE YEAR ENDED DECEMBER 31, 2007

	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Assets
		Charges for Services and Sales	Operating Grants Interest and Contributions	Capital Grants and Contributions	
Governmental activities					
Security of persons and property	\$ 8,237,736	\$ 430,309	\$ 19,398	\$ 163,741	\$ (7,624,288)
Public health and welfare	213,438	744,907	70,564	67,066	669,099
Leisure time activities	1,312,499	628,698	-	12,275	(671,526)
Community environment	2,438,334	213,180	-	-	(2,225,154)
Basic utility services	1,895,952	-	-	-	(1,895,952)
Transportation	2,240,896	-	-	150,000	(2,090,896)
General government	2,992,200	-	-	-	(2,992,200)
Interest	412,801	-	-	-	(412,801)
Total governmental activities	<u>\$ 19,743,856</u>	<u>\$ 2,017,094</u>	<u>\$ 89,962</u>	<u>\$ 393,082</u>	<u>(17,243,718)</u>

General revenues

Property taxes and special assessments levied for:

General purpose	2,976,147
Other purposes	394,829
Debt service	635,087
Capital improvements	179,467

Municipal income taxes levied for:

General purpose	8,240,772
Grants and entitlements not restricted to specific purposes	2,518,286
Interest	94,520
Transfer to agency fund	(346,000)
Miscellaneous	193,215

Total general revenues 14,886,323

Change in net assets (2,357,395)

Net assets at beginning of year 30,604,234

Net assets at end of year \$ 28,246,839

See the accompanying notes to the Basic Financial Statements.

CITY OF PARMA HEIGHTS, OHIO  
 CUYAHOGA COUNTY, OHIO  
 BALANCE SHEET – GOVERNMENTAL FUNDS  
 DECEMBER 31, 2007

	General	Bond Retirement	Other Governmental Funds	Total Governmental Funds
<b>Assets</b>				
Equity in pooled cash	\$ 938,628	\$ 411,397	\$ 172,705	\$ 1,522,730
Restricted cash	-	23,126	-	23,126
Taxes receivable	7,475,876	610,963	571,788	8,658,627
Special assessments receivable	-	416,500	-	416,500
Due from other governments	804,583	33,200	552,825	1,390,608
Accounts receivable	1,156	-	-	1,156
Inventories and supplies	40,876	-	117,760	158,636
Prepaid items	84,008	-	8,268	92,276
<b>Total assets</b>	<b>\$ 9,345,127</b>	<b>\$ 1,495,186</b>	<b>\$ 1,423,346</b>	<b>\$ 12,263,659</b>
<b>Liabilities and fund balances</b>				
<b>Liabilities</b>				
Accounts and contracts payable	\$ 354,332	\$ -	\$ 87,347	\$ 441,679
Accrued salaries, wages and benefits	269,473	-	7,864	277,337
Due to other governments	584,219	-	114,905	699,124
Interfund payable	206,900	-	-	206,900
Matured bonds and coupons payable	-	23,126	-	23,126
Deferred revenue	6,859,312	940,292	940,473	8,740,077
<b>Total liabilities</b>	<b>8,274,236</b>	<b>963,418</b>	<b>1,150,589</b>	<b>10,388,243</b>
<b>Fund balances</b>				
Reserved for encumbrances	117,175	-	40,650	157,825
Reserved for prepaid items	84,008	-	8,268	92,276
Reserved for inventories	40,876	-	117,760	158,636
Unreserved, reported in				
General Fund	828,832	-	-	828,832
Special Revenue Funds	-	-	51,108	51,108
Debt Service Fund	-	531,768	-	531,768
Capital Projects Funds	-	-	54,971	54,971
<b>Total fund balances</b>	<b>1,070,891</b>	<b>531,768</b>	<b>272,757</b>	<b>1,875,416</b>
<b>Total liabilities and fund balances</b>	<b>\$ 9,345,127</b>	<b>\$ 1,495,186</b>	<b>\$ 1,423,346</b>	<b>\$ 12,263,659</b>

See the accompanying notes to the Basic Financial Statements.

CITY OF PARMA HEIGHTS, OHIO  
 CUYAHOGA COUNTY, OHIO  
 RECONCILIATION OF TOTAL GOVERNMENTAL FUND BALANCES TO  
 NET ASSETS OF GOVERNMENTAL ACTIVITIES  
 DECEMBER 31, 2007

Total governmental fund balances		\$	1,875,416
Amount reported for governmental activities in the statement of net assets are different because:			
Capital assets used in governmental activities are not financial resources and therefore not reported in the funds.			31,743,876
Other long term assets are not available to pay for current period expenditures and therefore are deferred in the funds:			
Property and other local taxes	109,425		
Municipal income tax	4,165,607		
Intergovernmental	1,231,567		
Special assessments	416,500		
Total	5,923,099		5,923,099
In the statement of activities, interest is accrued on outstanding long term obligations, whereas in governmental funds, an interest expenditure is reported when due.			(37,433)
Long-term liabilities are not due and payable in the current period and therefore are not reported in the funds:			
Loans payable	(893,564)		
Note payable	(2,810,000)		
General obligation bonds	(5,965,000)		
Special assessment bonds	(312,834)		
Capital leases	(387,313)		
Compensated absences	(889,408)		
	(11,258,119)		(11,258,119)
Net assets of governmental activities		\$	28,246,839

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, 2007

	General	Bond Retirement	Other Governmental Funds	Total Governmental Funds
<b>Revenues</b>				
Property and other local taxes	\$ 3,057,174	\$ 618,545	\$ 578,754	\$ 4,254,473
Municipal income taxes	8,059,367	-	-	8,059,367
Intergovernmental	1,557,988	66,625	1,241,754	2,866,367
Special assessments	-	76,207	-	76,207
Charges for services	728,329	-	449,915	1,178,244
Fines, licenses and permits	623,471	-	5,492	628,963
Interest	68,119	19,900	6,501	94,520
Miscellaneous	195,893	-	228,113	424,006
<b>Total revenues</b>	<b>14,290,341</b>	<b>781,277</b>	<b>2,510,529</b>	<b>17,582,147</b>
<b>Expenditures</b>				
<b>Current</b>				
Security of persons and property	8,288,783	-	350,545	8,639,328
Public health and welfare	227,600	-	-	227,600
Leisure time activities	322,147	-	825,396	1,147,543
Community environment	2,143,761	-	307,207	2,450,968
Basic utility services	1,028,275	-	-	1,028,275
Transportation	177,152	-	792,772	969,924
General government	2,930,573	-	11,399	2,941,972
Capital outlay	-	-	168,308	168,308
Debt service				
Principal	-	2,901,105	-	2,901,105
Capital lease	57,131	-	-	57,131
Interest and fiscal charges	4,710	396,827	-	401,537
<b>Total expenditures</b>	<b>15,180,132</b>	<b>3,297,932</b>	<b>2,455,627</b>	<b>20,933,691</b>
<b>Excess (deficiency) of revenues over expenditures</b>	<b>(889,791)</b>	<b>(2,516,655)</b>	<b>54,902</b>	<b>(3,351,544)</b>
<b>Other financing sources (uses)</b>				
Transfers-in	-	107,000	-	107,000
Transfers-out	-	(346,000)	(107,000)	(453,000)
Note proceeds	-	2,810,000	-	2,810,000
Capital lease proceeds	351,351	-	-	351,351
<b>Total other financing sources (uses)</b>	<b>351,351</b>	<b>2,571,000</b>	<b>(107,000)</b>	<b>2,815,351</b>
<b>Excess (deficiency) of revenues over expenditures and other sources (uses)</b>	<b>(538,440)</b>	<b>54,345</b>	<b>(52,098)</b>	<b>(536,193)</b>
<b>Fund balances, beginning of year</b>	<b>1,609,331</b>	<b>477,423</b>	<b>324,855</b>	<b>2,411,609</b>
<b>Fund balances, end of year</b>	<b>\$ 1,070,891</b>	<b>\$ 531,768</b>	<b>\$ 272,757</b>	<b>\$ 1,875,416</b>

See the accompanying notes to the Basic Financial Statements.

CITY OF PARMA HEIGHTS, OHIO  
 CUYAHOGA COUNTY, OHIO

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

FOR THE YEAR ENDED DECEMBER 31, 2007

Net change in fund balances - total governmental funds		\$ (536,193)
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	597,472
	Loss on disposal of assets	(9,886)
	Depreciation expense	<u>(2,645,773)</u>
		(2,058,187)
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.		
	Municipal income tax	181,405
	Property and other local taxes	(90,250)
	Miscellaneous	(20,904)
	Special assessments	(54,900)
	Intergovernmental	<u>134,963</u>
		150,314
Repayment of debt principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets.		
	Loan principal paid	75,335
	Note principal paid	2,351,555
	Bond principal paid	474,215
	Capital lease principal paid	<u>57,131</u>
		2,958,236
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 assets.		
		(3,161,351)
In the statement of activities, interest is accrued on outstanding debt, whereas in governmental funds, an interest expenditure is reported when due.		
		(11,264)
Some expenses reported in the statement of activities, such as compensated absences and intergovernmental payable which represents contractually required pension contributions, do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds.		
	Compensated absences	(133,705)
	Intergovernmental	<u>434,755</u>
		<u>301,050</u>
Change in net assets of governmental activities		<u>\$ (2,357,395)</u>

See the accompanying notes to the Basic Financial Statements.

CITY OF PARMA HEIGHTS, OHIO  
 CUYAHOGA COUNTY, OHIO  
 STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN  
 FUND BALANCES – BUDGET (NON-GAAP BASIS) AND ACTUAL – GENERAL FUND  
 FOR THE YEAR ENDED DECEMBER 31, 2007

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
<b>Revenues</b>				
Property and other local taxes	\$ 2,681,513	\$ 2,712,017	\$ 3,102,229	\$ 390,212
Municipal income taxes	8,127,976	8,531,529	8,106,353	(425,176)
Intergovernmental	1,617,881	1,698,209	1,613,577	(84,632)
Charges for services	1,387,414	1,454,926	727,115	(727,811)
Fines, licenses and permits	625,134	656,172	623,471	(32,701)
Interest	58,346	71,193	68,119	(3,074)
Miscellaneous	196,385	206,136	195,863	(10,273)
Total revenue	<u>14,694,649</u>	<u>15,330,182</u>	<u>14,436,727</u>	<u>(893,455)</u>
<b>Expenditures</b>				
Current				
Security of persons and property	8,021,791	8,041,023	7,851,693	189,330
Public health and welfare	483,688	583,841	333,230	250,611
Leisure time activities	243,748	300,589	300,321	268
Community environment	2,783,462	2,945,875	2,945,301	574
Basic utility services	211,346	211,346	210,251	1,095
General government	2,355,575	2,655,395	2,585,902	69,493
Total expenditures	<u>14,099,610</u>	<u>14,738,069</u>	<u>14,226,698</u>	<u>511,371</u>
Excess (deficiency) of revenues over expenditures	<u>595,039</u>	<u>592,113</u>	<u>210,029</u>	<u>(382,084)</u>
Other financing sources (uses)				
Transfers-out	(30,000)	-	-	-
Total other financing sources (uses)	<u>(30,000)</u>	<u>-</u>	<u>-</u>	<u>-</u>
Excess (deficiency) of revenues over expenditures and other sources (uses)	565,039	592,113	210,029	(382,084)
Prior year encumbrances	41,703	41,703	41,703	-
Fund balance, at beginning of year	<u>511,174</u>	<u>511,174</u>	<u>511,174</u>	<u>-</u>
Fund balance, at end of year	<u>\$ 1,117,916</u>	<u>\$ 1,144,990</u>	<u>\$ 762,906</u>	<u>\$ (382,084)</u>

See the accompanying notes to the Basic Financial Statements.

CITY OF PARMA HEIGHTS, OHIO  
CUYAHOGA COUNTY, OHIO  
STATEMENT OF FIDUCIARY ASSETS AND LIABILITIES  
AGENCY FUNDS  
DECEMBER 31, 2007

Assets	
Equity in pooled cash	\$ 80,562
Due from other governments	8,000
Due from general fund	<u>206,900</u>
Total assets	<u><u>295,462</u></u>
Liabilities	
Accounts payable	750
Due to other governments	29,885
Due to others	<u>264,827</u>
Total liabilities	<u><u>\$ 295,462</u></u>

See the accompanying notes to the Basic Financial Statements.

CITY OF PARMA HEIGHTS, OHIO  
CUYAHOGA COUNTY, OHIO  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
DECEMBER 31, 2007

NOTE 1 - DESCRIPTION OF THE CITY AND REPORTING ENTITY

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

Reporting Entity

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

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

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

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

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

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



CITY OF PARMA HEIGHTS, OHIO  
CUYAHOGA COUNTY, OHIO  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
DECEMBER 31, 2007

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

A. BASIS OF PRESENTATION

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

Government-wide Financial Statements

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

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

Fund Financial Statements

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

CITY OF PARMA HEIGHTS, OHIO  
CUYAHOGA COUNTY, OHIO  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
DECEMBER 31, 2007

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

B. FUND ACCOUNTING

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

Governmental Funds

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

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

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

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

Proprietary Funds

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

Fiduciary Funds

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

CITY OF PARMA HEIGHTS, OHIO  
CUYAHOGA COUNTY, OHIO  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
DECEMBER 31, 2007

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

C. MEASUREMENT FOCUS

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

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

D. BASIS OF ACCOUNTING

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

Revenues – Exchange and Non-exchange Transactions

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

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

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

CITY OF PARMA HEIGHTS, OHIO  
CUYAHOGA COUNTY, OHIO  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
DECEMBER 31, 2007

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

D. BASIS OF ACCOUNTING (continued)

Deferred Revenue

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

Property taxes for which there is an enforceable legal claim as of December 31, 2007, but which were levied to finance year 2008 operations, have been recorded as deferred revenue. Special assessments not received within the available period and grants and entitlements received before the eligibility requirements are met are also recorded as deferred revenue.

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

Expenses/Expenditures

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

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

E. BUDGETARY PROCESS

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

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

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

CITY OF PARMA HEIGHTS, OHIO  
 CUYAHOGA COUNTY, OHIO  
 NOTES TO THE BASIC FINANCIAL STATEMENTS  
 DECEMBER 31, 2007

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

F. CASH AND CASH EQUIVALENTS

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

Except for investment contracts and money market investments that had a remaining maturity of one year or less at the time of purchase, investments are reported at fair value, which is based on quoted market prices. Investment contracts and money market investments that had a remaining maturity of one year or less at the time of purchase are reported at cost or amortized cost. The City has invested funds in the State Treasury Asset Reserve of Ohio (STAROhio). STAROhio is an investment pool managed by the State Treasurer's Office, which allows governments within the State to pool their funds for investment purposes. STAROhio is not registered with the SEC as an investment company, but does operate in a manner consistent with Rule 2a7 of the Investment Company Act of 1940. Investments in STAROhio are valued at STAROhio's share price, which is the price the investment could be sold for on December 31, 2007.

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

	Actual Interest Credited	Amount Assigned From Other City Funds
General	\$ 68,119	\$ 15,230

G. INVENTORY

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

H. PREPAID ITEMS

Payments made to vendors for services that will benefit periods beyond December 31, 2007, are recorded as prepaid items using the consumption method by recording a current asset for the prepaid amount and reflecting the expense in the year in which it was consumed.

CITY OF PARMA HEIGHTS, OHIO  
 CUYAHOGA COUNTY, OHIO  
 NOTES TO THE BASIC FINANCIAL STATEMENTS  
 DECEMBER 31, 2007

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

I. CAPITAL ASSETS

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

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

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

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

J. INTERFUND BALANCES

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

K. COMPENSATED ABSENCES

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

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

CITY OF PARMA HEIGHTS, OHIO  
CUYAHOGA COUNTY, OHIO  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
DECEMBER 31, 2007

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

L. ACCRUED LIABILITIES AND LONG-TERM OBLIGATIONS

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

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

M. FUND BALANCE RESERVES

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

N. NET ASSETS

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

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

O. INTERFUND ACTIVITY

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

P. EXTRAORDINARY AND SPECIAL ITEMS

Extraordinary items are transactions or events that are both unusual in nature and infrequent in occurrence. Special items are transactions or events that are within the control of the City Administration and that are either unusual in nature or infrequent in occurrence. Neither type of transaction occurred during 2007.

CITY OF PARMA HEIGHTS, OHIO  
 CUYAHOGA COUNTY, OHIO  
 NOTES TO THE BASIC FINANCIAL STATEMENTS  
 DECEMBER 31, 2007

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Q. ESTIMATES

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

NOTE 3 – BUDGETARY BASIS OF ACCOUNTING

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

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

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

	Net Change in Fund Balance
	General Fund
Budget basis	\$ 210,029
Adjustments, increase (decrease)	
Revenue accruals	204,965
Expenditure accruals	(953,434)
GAAP basis, as reported	\$ (538,440)

NOTE 4 – ACCOUNTABILITY AND COMPLIANCE

A. ACCOUNTABILITY

At December 31, 2007, the Police Pension and Fire Pension funds had deficit fund balances of \$ 26,882 and \$ 26,882. These deficit fund balances are the result of adjustments for accrued liabilities in these funds. The General fund is liable for any deficits in these funds and provides transfers when cash is needed, not when accruals occur.



CITY OF PARMA HEIGHTS, OHIO  
CUYAHOGA COUNTY, OHIO  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
DECEMBER 31, 2007

NOTE 4 – ACCOUNTABILITY AND COMPLIANCE

B. COMPLIANCE

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

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

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

NOTE 5 – DEPOSITS AND INVESTMENTS

A. LEGAL REQUIREMENTS

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

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

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

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

- 1) United States treasury notes, bills, bonds, or any other obligation or security issued by the United States treasury or any other obligation guaranteed as to principal and interest by the United States;
- 2) Bonds, notes, debentures, or other obligations or securities issued by any federal government agency or instrumentality, including but not limited to, the Federal National Mortgage Association, Federal Home Loan Bank, Federal Farm Credit Bank, Federal Home Loan Mortgage Corporation, Government National Mortgage Association, and Student Loan Marketing Association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;

CITY OF PARMA HEIGHTS, OHIO  
CUYAHOGA COUNTY, OHIO  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
DECEMBER 31, 2007

NOTE 5 – DEPOSITS AND INVESTMENTS (continued)

A. LEGAL REQUIREMENTS (continued)

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

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

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

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

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

B. DEPOSITS

**Custodial Credit Risk.** Custodial credit risk for deposits is the risk that in the event of bank failure, the City will not be able to recover deposits or collateral securities that are in the possession of an outside party. At year end, the carrying amount of the City's deposits was \$ 1,304,840 and the bank balance was \$ 1,725,265.

Of the bank balance, \$ 297,574 is collateralized by federal depository insurance and \$ 1,427,691 was uninsured. Of the remaining balance, \$ 1,427,691 was collateralized with securities held by the pledging institution's trust department not in the District's name.

CITY OF PARMA HEIGHTS, OHIO  
 CUYAHOGA COUNTY, OHIO  
 NOTES TO THE BASIC FINANCIAL STATEMENTS  
 DECEMBER 31, 2007

NOTE 5 – DEPOSITS AND INVESTMENTS (continued)

B. DEPOSITS

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

C. INVESTMENTS

As of December 31, 2007, the City had the following investments.

	<u>Maturities</u>	<u>Fair Value</u>
Manuscript bonds	n/a	\$ 312,835
Investment in STAROhio	n/a	8,743
		<u>\$ 321,578</u>

D. INTEREST RATE RISK

The City has no investment policy that addresses interest rate risk. State statute requires that an investment mature within five years from the date of purchase, unless matched to a specific obligation or debt of the City, and that an investment must be purchased with the expectation that it will be held to maturity. State statute limits investments in commercial paper to a maximum maturity of 180 days from the date of purchase. Repurchase agreements are limited to 30 days and the market value of the securities must exceed the principal value of the agreement by at least 2 percent and be marked to market daily.

E. CREDIT RISK

The City follows the Ohio Revised Code that limits its investment choices. As of December 31, 2007, the City's investments in StarOhio were rated AAA by Standard & Poor's. Ohio law requires that StarOhio maintain the highest rating provided by at least one nationally recognized standard rating service.

F. CONCENTRATION OF CREDIT RISK

The City places no limit on the amount that may be invested in any one issuer. The City's allocation as of December 31, 2007 was 2.7 percent invested in STAR Ohio and 97.3 percent invested in manuscript bonds.

CITY OF PARMA HEIGHTS, OHIO  
 CUYAHOGA COUNTY, OHIO  
 NOTES TO THE BASIC FINANCIAL STATEMENTS  
 DECEMBER 31, 2007

NOTE 6 – RECEIVABLES

Receivables at December 31, 2007, 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 \$ 360,125 in the Bond Retirement Fund. At December 31, 2007 the amount of delinquent special assessments was \$ 10,673.

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 2007 for real and public utility property taxes represents collections of the 2006 taxes. Property tax payments received during 2007 for tangible personal property (other than public utility property) is for 2006 taxes.

2007 real property taxes are levied after October 1, 2007, on the assessed value as of January 1, 2007, the lien date. Assessed values are established by State law at 35 percent of appraised market value. 2007 real property taxes are collected in and intended to finance 2008.

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. 2007 public utility property taxes became a lien December 31, 2006, are levied after October 1, 2007, and are collected in 2008 with real property taxes.

2007 tangible personal property taxes are levied after October 1, 2006, on the value as of December 31, 2006. Collections are made in 2007. Tangible personal property assessments are 25 percent of true value.

The full tax rate for all City operations for the year ended December 31, 2007, was \$10.20 per \$1,000 of assessed value. The assessed values of real and tangible personal property upon which 2007 property tax receipts were based are as follows:

Real property - 2007	
Residential/agricultural	\$ 294,630,710
Other real estate	84,073,920
Tangible personal property - 2007	
General	3,455,650
Public utilities	3,229,670
Total valuation	\$ 385,389,950

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

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

CITY OF PARMA HEIGHTS, OHIO  
 CUYAHOGA COUNTY, OHIO  
 NOTES TO THE BASIC FINANCIAL STATEMENTS  
 DECEMBER 31, 2007

NOTE 6 – RECEIVABLES (continued)

B. INCOME TAXES

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

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

C. DUE FROM OTHER GOVERNMENTS

A summary of due from other governments follows:

Homestead and rollback	\$	198,000
Gasoline Tax		373,193
Grants		15,351
Local government		642,371
Motor vehicle		65,563
Auto registration		83,070
Miscellaneous		21,060
		\$ 1,398,608

CITY OF PARMA HEIGHTS, OHIO  
 CUYAHOGA COUNTY, OHIO  
 NOTES TO THE BASIC FINANCIAL STATEMENTS  
 DECEMBER 31, 2007

NOTE 7 – CAPITAL ASSETS

Capital asset activity for the year ended December 31, 2007, was as follows:

	<u>Balance</u> <u>12/31/06</u>	<u>Addition</u>	<u>Disposals</u>	<u>Balance</u> <u>12/31/07</u>
Governmental Activities				
Nondepreciable capital assets				
Land	\$ 1,344,328	\$ -	\$ -	\$ 1,344,328
Construction in process	489,740	24,049	156,287	357,502
	<u>1,834,068</u>	<u>24,049</u>	<u>156,287</u>	<u>1,701,830</u>
Depreciable capital assets				
Buildings and improvements	8,484,138	156,287	-	8,640,425
Machinery and equipment	5,275,639	573,421	139,888	5,709,172
Infrastructure	70,973,341	-	-	70,973,341
Total capital assets being depreciated	<u>84,733,118</u>	<u>729,708</u>	<u>139,888</u>	<u>85,322,938</u>
Less accumulated depreciation				
Buildings and improvements	5,644,291	278,685	-	5,922,976
Machinery and equipment	3,525,362	346,865	130,002	3,742,225
Infrastructure	43,595,468	2,020,223	-	45,615,691
Total accumulated depreciation	<u>52,765,121</u>	<u>2,645,773</u>	<u>130,002</u>	<u>55,280,892</u>
Depreciable capital assets, net of accumulated depreciation	<u>31,967,997</u>	<u>(1,916,065)</u>	<u>9,886</u>	<u>30,042,046</u>
Governmental activities capital assets, net	<u>\$ 33,802,065</u>	<u>\$ (1,892,016)</u>	<u>\$ 166,173</u>	<u>\$ 31,743,876</u>

Depreciation expense was charged to governmental functions as follows:

General government	\$ 64,560
Security of persons and property	196,605
Transportation	1,320,831
Basic utility services	873,141
Leisure time activities	190,636
Total depreciation expense	<u>\$ 2,645,773</u>

CITY OF PARMA HEIGHTS, OHIO  
 CUYAHOGA COUNTY, OHIO  
 NOTES TO THE BASIC FINANCIAL STATEMENTS  
 DECEMBER 31, 2007

NOTE 8 – NOTES PAYABLE

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

	Outstanding 12/31/06	Additions	Reductions	Outstanding 12/31/07
Bond anticipation note, maturity 9-20-07, 3.80%	\$ 346,000	\$ -	\$ 346,000	\$ -

At the September 20, 2007 maturity, this \$ 346,000 note was retired by incorporating the principal and interest due into a larger note issued to finance special assessment related improvements for this project.

The City certified the special assessment to the county auditor for collection through the property tax collections. Payment under the development agreement when received will allow the short term debt to be paid down prior to issuing long term special assessment bonds.

NOTE 9 – LONG-TERM DEBT

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

	Original Issue Date	Maturity Date	Interest Rate	Original Issue Amount
<b>General obligation bonds</b>				
Library improvements	1988	2009	6.30% - 10.0%	\$ 1,000,000
Recreational facilities improvement	2001	2021	2.00% - 5.50%	2,750,000
Street improvement	2004	2019	2.00% - 5.00%	4,075,000
Various purpose improvements	2006	2011	4.00% - 4.25%	380,000
<b>Special assessment bonds</b>				
Retaining wall improvements	1990	2010	7.50%	32,772
Street improvements	1992	2012	6.25%	20,278
Street improvements	1995	2015	6.25%	28,513
Street improvements	1995	2015	6.20%	98,963
Street improvements	1998	2017	6.25%	40,008
Street improvements	1999	2019	5.75%	320,000
<b>Ohio Public Works loan</b>				
Ohio Public Works loan	1999	2019	0.00%	356,940
Ohio Public Works loan	1999	2019	0.00%	360,306
Ohio Public Works loan	2002	2022	0.00%	368,333
Ohio Public Works loan	2002	2022	0.00%	185,183
<b>Ohio Water Development Authority loan</b>				
Ohio Water Development Authority loan	1995	2015	4.18%	218,870

CITY OF PARMA HEIGHTS, OHIO  
 CUYAHOGA COUNTY, OHIO  
 NOTES TO THE BASIC FINANCIAL STATEMENTS  
 DECEMBER 31, 2007

NOTE 9 – LONG-TERM DEBT (continued)

Changes in the City's long-term obligations during 2007 were as follows:

	Outstanding 12/31/06	Additions	Reductions	Outstanding 12/31/07	Amount Due In One Year
Bond anticipation notes					
Maturity 9-20-07, 3.80%	\$ 2,351,555	\$ -	\$ 2,351,555	\$ -	\$ -
Maturity 9-12-08, 3.75%	-	2,810,000	-	2,810,000	2,810,000
	<u>2,351,555</u>	<u>2,810,000</u>	<u>2,351,555</u>	<u>2,810,000</u>	<u>2,810,000</u>
General obligations bonds:					
Library improvements	150,000	-	50,000	100,000	50,000
Recreational facilities improvement	2,265,000	-	100,000	2,165,000	110,000
Street improvements	3,620,000	-	230,000	3,390,000	235,000
Various purpose improvement	380,000	-	70,000	310,000	75,000
Total general obligation bonds	<u>6,415,000</u>	<u>-</u>	<u>450,000</u>	<u>5,965,000</u>	<u>470,000</u>
Special assessment bonds:					
Retaining wall improvements	6,553	-	1,639	4,914	1,639
Street improvements	6,083	-	1,014	5,069	1,014
Street improvements	12,831	-	1,426	11,405	1,426
Street improvements	44,534	-	4,948	39,586	4,948
Street improvements	22,000	-	2,000	20,000	2,000
Street improvements	245,048	-	13,188	231,860	13,946
Total special assessment bonds	<u>337,049</u>	<u>-</u>	<u>24,215</u>	<u>312,834</u>	<u>24,973</u>
Ohio Public Works commission loans:					
Concrete street reconstruction	214,165	-	17,847	196,318	17,847
Concrete street reconstruction	216,184	-	18,015	198,169	18,016
Concrete street reconstruction	285,457	-	18,417	267,040	18,417
Concrete street reconstruction	143,517	-	9,259	134,258	9,259
	<u>859,323</u>	<u>-</u>	<u>63,538</u>	<u>795,785</u>	<u>63,539</u>
Ohio Water Development Authority Loans	109,576	-	11,797	97,779	12,295
Capital lease obligations	93,093	351,351	57,131	387,313	110,691
Compensated absences	755,705	172,385	38,682	889,408	-
	<u>\$ 10,921,301</u>	<u>\$ 3,333,736</u>	<u>\$ 2,996,918</u>	<u>\$ 11,258,119</u>	<u>\$ 3,491,498</u>

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



CITY OF PARMA HEIGHTS, OHIO  
 CUYAHOGA COUNTY, OHIO  
 NOTES TO THE BASIC FINANCIAL STATEMENTS  
 DECEMBER 31, 2007

NOTE 9 – LONG-TERM DEBT (continued)

Debt service requirements to retire bonds payable and loans payable outstanding at December 31, 2007 consisted of:

Year	Principal	Interest	Total
2008	\$ 3,380,807	\$ 288,720	\$ 3,669,527
2009	587,128	268,104	855,232
2010	558,514	247,197	805,711
2011	568,339	209,644	777,983
2012	504,875	733,250	1,238,125
2013-2017	2,696,149	155,274	2,851,423
2018-2022	1,685,586	153,644	1,839,230
	<u>\$ 9,981,398</u>	<u>\$ 2,055,833</u>	<u>\$ 12,037,231</u>

NOTE 10 – CONDUIT DEBT

The City entered into a lease-purchase agreement with Parma Community General Hospital Association to provide the Hospital with the financial means to purchase equipment. The payments contained in this lease-purchase agreement are not general obligations, debt or bonded indebtedness of the City. The outstanding balance at December 31, 2007 was \$ 816,590.

NOTE 11 – CAPITAL LEASE

The City is obligated under certain leases accounted for as capital leases. Assets under capital lease totaled \$ 563,664, at December 31, 2007. The leases are in effect through 2014. 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, 2007.

	Amount
2008	\$ 129,010
2009	91,361
2010	91,360
2011	32,773
2012	32,773
Thereafter	65,546
Total minimum lease payments	442,823
Less amount representing interest	55,510
Net present value of minimum lease payments	<u>\$ 387,313</u>

CITY OF PARMA HEIGHTS, OHIO  
 CUYAHOGA COUNTY, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS

DECEMBER 31, 2007

**NOTE 12 – INTERFUND TRANSFERS**

Council authorized the transfers of \$ 107,000 from nonmajor funds to debt retirement fund. These transfers were to reclassify debt service payments paid by the debt retirement fund. For financial statement presentation the transfers from the debt retirement fund to the agency fund for \$ 346,000 was for the purpose of presenting the notes payable in the agency fund.

Transfers to:	Transfer from:		Total
	Debt Retirement	Nonmajor Funds	
Debt Retirement	\$ -	107,000	\$ 107,000
Agency	346,000	-	346,000
	\$ 346,000	\$ 107,000	\$ 453,000

**NOTE 13 – DEFINED BENEFIT PENSION PLANS**

**A. OHIO PUBLIC EMPLOYEES RETIREMENT SYSTEM**

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

OPERS provides retirement, disability, survivor and death benefits and annual cost of living adjustments to members of the traditional and combined plans. Members of the member directed plan do not qualify for ancillary benefits. Authority to establish and amend benefits is provided by Chapter 145 of the Ohio Revised Code. OPERS issues a stand-alone financial report that may be obtained by writing to OPERS, 277 East Town Street, Columbus, OH 43215-4642 or by calling (614) 222-5601 or (800) 222-7377.

For the year ended December 31, 2007, the members of all three plans, except those in law enforcement or public safety participating in the traditional plan, were required to contribute 9.5 percent of their annual covered salaries. Members participating in the traditional plan who were in law enforcement contributed 10.1 percent of their annual covered salary; members in public safety contributed 9.75 percent. The employer contribution rate for pension benefits for 2007 was 13.85 percent, except for those plan members in law enforcement or public safety. For those classifications, the employer's pension contributions were 17.17 percent of covered payroll. The Ohio Revised Code provides statutory authority for member and employer contributions.

The City's required contributions for pension obligations for all plans for the years ended December 31, 2007, 2006, and 2005 were \$ 367,399, \$ 378,519, and \$ 322,450, respectively; 70 percent has been contributed for 2007 and 100 percent for 2006 and 2005.

CITY OF PARMA HEIGHTS, OHIO  
CUYAHOGA COUNTY, OHIO  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
DECEMBER 31, 2007

NOTE 13 – DEFINED BENEFIT PENSION PLANS (continued)

B. OHIO POLICE AND FIRE PENSION FUND

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

Plan members are required to contribute 10 percent of their annual covered salary to fund pension obligations. The City's contribution was 19.5 percent for police officers and 24 percent for firefighters. Contribution rates are established by State statute. For 2007, a portion of the City's contribution equal to 6.75 percent of covered payroll was allocated to fund the post-employment health care plan. The City's pension contributions to OP&F for police and firefighters were \$334,948 and \$366,651 for the year ended December 31, 2007, \$307,741 and \$340,075 for the year ended December 31, 2006, and \$341,962 and \$313,138 for the year ended December 31, 2005. The full amount has been contributed for 2006 and 2005. 76 percent has been contributed for police and 75 percent has been contributed for firefighters for 2007.

NOTE 14 – POSTEMPLOYMENT BENEFITS

A. OHIO PUBLIC EMPLOYEES RETIREMENT SYSTEM

The Ohio Public Employees Retirement System (OPERS) provides postretirement health care coverage to age and service retirees with ten or more years of qualifying Ohio service credit with either the traditional or combined plans. Health care coverage for disability benefit recipients and qualified survivor benefit recipients is available. Members of the member-directed plan do not qualify for postretirement health care coverage. The health care coverage provided by the retirement system is considered an Other Postemployment Benefit as described in *GASB Statement No. 12*. A portion of each employer's contribution to the traditional or combined plans is set aside for the funding of postretirement health care based on authority granted by State statute. The 2007 local government employer contribution rate was 13.85 percent of covered payroll (17.17 percent for public safety and law enforcement); The portion of employer contributions allocated to health care was 5.00% from January 1 through June 30, 2007 and 6.00% from July 1 through December 31, 2007.

Benefits are advance-funded using the entry age actuarial cost method. Significant actuarial assumptions, based on OPERS's latest actuarial review performed as of December 31, 2006, include a rate of return on investments of 6.5 percent, an annual increase in active employee total payroll of 4 percent compounded annually (assuming no change in the number of active employees) and an additional increase in total payroll of between 0.50 percent and 6.3 percent based on additional annual pay increases. Health care costs were assumed to increase at the projected wage inflation rate plus an additional factor ranging from .50 to 5 percent annually for the next eight years. In subsequent years (9 and beyond) health care costs were assumed to increase at 4 percent (the projected wage inflation rate).

CITY OF PARMA HEIGHTS, OHIO  
CUYAHOGA COUNTY, OHIO  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
DECEMBER 31, 2007

NOTE 14 – POSTEMPLOYMENT BENEFITS (continued)

A. OHIO PUBLIC EMPLOYEES RETIREMENT SYSTEM (continued)

All investments are carried at market value. For actuarial valuation purposes, a smoothed market approach is used. Assets are adjusted to reflect 25 percent of unrealized market appreciation or depreciation on investment assets annually, not to exceed a 12 percent corridor.

The number of active contributing participants in the traditional and combined plans was 374,979. Actual City contributions for 2007 which were used to fund postemployment benefits were \$ 241,999. The actual contribution and the actuarially required contribution amounts are the same. The actuarial value of OPERS's net assets available for payment of benefits at December 31, 2006, was \$12.0 billion. The actuarially accrued liability and the unfunded actuarial accrued liability were \$30.7 billion and \$18.7 billion, respectively.

On September 9, 2004, the OPERS Retirement Board adopted a Health Care Preservation Plan (HCPP) with an effective date of January 1, 2007. Member and employer contribution rates increased as of January 1, 2006, January 1, 2007, and January 1, 2008, which allow additional funds to be allocated to the health care plan. The HCPP restructures OPERS' health care coverage to improve the financial solvency of the fund in response to increasing health care costs.

B. OHIO POLICE AND FIRE PENSION FUND

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

The health care coverage provided by the retirement system is considered an Other Postemployment Benefit (OPEB) as described in *GASB Statement No. 12*. The Ohio Revised Code provides the authority allowing the Ohio Police and Fire Pension Fund's Board of Trustees to provide health care coverage and states that health care costs paid from the funds of OP&F shall be included in the employer's contribution rate. Health care funding and accounting is on a pay-as-you-go basis.

The total police employer contribution rate is 19.5 percent of covered payroll and the total firefighter employer contribution rate is 24 percent of covered payroll, of which 6.75 percent of covered payroll in 2007 and 7.75 percent of covered payroll in 2006. In addition, since July 1, 1992, most retirees and survivors have been required to contribute a portion of the cost of their health care coverage through a deduction from their monthly benefit payment. Beginning in 2001, all retirees and survivors have monthly health care contributions.

The City's actual contributions for 2007 that were used to fund postemployment health care benefits were \$ 177,325 for police and \$ 143,472 for firefighters. The OP&F's total health care expense for the year ended December 31, 2006 (the latest information available) was \$ 120,373,722, which was net of member contributions of \$ 58,532,848. The number of OP&F participants eligible to receive health care benefits as of December 31, 2006, was 14,120 for police and 10,563 for firefighters

CITY OF PARMA HEIGHTS, OHIO  
CUYAHOGA COUNTY, OHIO  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
DECEMBER 31, 2007

NOTE 15 – JOINTLY GOVERNED ORGANIZATION

A. SOUTHWEST COUNCIL OF GOVERNMENTS

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

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

B. PARMA COMMUNITY GENERAL HOSPITAL ASSOCIATION

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

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

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

C. NORTHEAST OHIO PUBLIC ENERGY COUNCIL

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

CITY OF PARMA HEIGHTS, OHIO  
 CUYAHOGA COUNTY, OHIO  
 NOTES TO THE BASIC FINANCIAL STATEMENTS  
 DECEMBER 31, 2007

NOTE 15 – JOINTLY GOVERNED ORGANIZATION (continued)

C. NORTHEAST OHIO PUBLIC ENERGY COUNCIL (continued)

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

NOTE 16 – CONTRACTUAL COMMITMENTS

As of December 31, 2007, the City had contractual commitments as follows:

<u>Project</u>	<u>Project Authorization</u>	<u>Expended to Date</u>	<u>Outstanding Commitments</u>
Ackley Blvd. Street Resurfacing	\$ 204,385	\$ 202,341	\$ 2,044

NOTE 17 – CONTINGENCIES

For the year ended December 31, 2007, the City received assistance from various state and federal agencies. There are certain requirements of a compliance nature that have to be met and programs are subject to audit by the grantor agency. Any disallowed claims could be liabilities of the general fund or other applicable funds. In the opinion of management, any claims that might arise would not have a material effect on the City's financial statements.

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

CITY OF PARMA HEIGHTS, OHIO  
 CUYAHOGA COUNTY, OHIO  
 NOTES TO THE BASIC FINANCIAL STATEMENTS  
 DECEMBER 31, 2007

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 2007 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, 2007 and 2006 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.

	<u>2007</u>	<u>2006</u>
Unpaid claims, beginning of year	\$ -	\$ 102,097
Incurred claims	1,022,536	811,170
Claims payment	<u>(898,803)</u>	<u>(913,267)</u>
Unpaid claims, end of year	<u>\$ 123,733</u>	<u>\$ -</u>

**This page intentionally left blank.**



CITY OF PARMA HEIGHTS, OHIO  
CUYAHOGA COUNTY  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED DECEMBER 31, 2006  
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, 2006. 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 2006 are as follows:

- Total net assets decreased by \$ 1,335,727 or 4.2% in 2006.
- Capital assets, net of depreciation, decreased by \$ 2,045,634 or 5.7% in 2006.
- Current and other assets increased by \$ 737,321 or 6.4% in 2006.
- Total liabilities increased by \$ 27,414 or 0.2% in 2006.
- Total equity in pooled cash and cash equivalents increased by \$ 231,081.

**Using This Financial Report**

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

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

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

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

While this document contains information about the funds used by the City to provide services to our residents, the view of the City as a whole considers all financial transactions and measures how the City did financially during fiscal year 2006. The *Statement of Net Assets* and the *Statement of Activities* include assets and liabilities using the accrual basis of accounting similar to the accounting method used by the private sector. The basis of this accounting takes into account all of the current year's revenues and expenses regardless of when the cash is received or paid.

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

CITY OF PARMA HEIGHTS, OHIO  
CUYAHOGA COUNTY  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED DECEMBER 31, 2006  
UNAUDITED

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

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

### **Reporting The City Of Parma Heights' Most Significant Funds**

#### **Fund Financial Statements**

The presentation of the City's major funds begins on page 54. Fund financial reports provide detailed information about the City's major funds based on the restrictions on the use of monies. The City has established many funds, which account for the multitude of services, facilities and infrastructure provided to our residents. However, these fund financial statements focus on the City's most significant funds. In the case of Parma Heights, the major governmental funds are the general fund, the bond retirement fund, and the capital projects fund.

#### **Governmental Funds**

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

CITY OF PARMA HEIGHTS, OHIO  
 CUYAHOGA COUNTY  
 MANAGEMENT'S DISCUSSION AND ANALYSIS  
 FOR THE YEAR ENDED DECEMBER 31, 2006  
 UNAUDITED

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

The Statement of Net Assets provides the perspective of the City as a whole. Table 1 provides a summary of the City's net assets for 2006 compared to 2005.

	2006	2005
<b>Assets</b>		
Current and other assets	\$ 12,184,164	\$ 11,446,843
Capital assets, net	33,802,065	35,847,699
<b>Total assets</b>	<b>45,986,229</b>	<b>47,294,542</b>
<b>Liabilities</b>		
Current liabilities	4,460,694	4,265,681
Long term liabilities		
Due within one year	2,958,236	3,120,190
Due in more than one year	7,963,065	7,968,710
<b>Total liabilities</b>	<b>15,381,995</b>	<b>15,354,581</b>
<b>Net assets</b>		
Invested in capital assets, net of related debt	25,988,024	25,725,010
Restricted	1,997,890	2,311,923
Unrestricted	2,618,320	3,900,028
<b>Total net assets</b>	<b>\$ 30,604,234</b>	<b>\$ 31,936,961</b>

As noted previously, net assets may serve over time as a useful indicator of a government's financial position. For the City of Parma Heights, total assets exceed total liabilities by \$ 30,604,234 as of December 31, 2006.

The largest portion of the City's net assets (84.9%) reflects investments in capital assets (land, buildings, machinery, equipment, construction in progress, vehicles and infrastructure) less any related debt to acquire those assets that is still outstanding. These capital assets are used to provide services to the City's residents; consequently, these assets are not available for future spending. Although the City's investment in capital assets is reported net of related debt, it should be noted that resources to repay such debt must be provided from other sources since the capital assets themselves cannot be used to liquidate these liabilities.

Total assets decreased by \$ 1,308,313 from 2005 to 2006, and the City's total liabilities increased by \$ 27,414. The decrease in assets is the net result of increases to the current assets of \$737,321 during 2006, offset by deletions and depreciation of capital assets during the year of \$2,045,634.

CITY OF PARMA HEIGHTS, OHIO  
CUYAHOGA COUNTY

MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED DECEMBER 31, 2006  
UNAUDITED

The increase in liabilities of \$27,414 has occurred in part due to the ongoing financing of a roadway/utility construction project that remains in short term financing in anticipation of the issuance of long term special assessment bonds. Capitalized interest occurring when the short-term debt has been refinanced with new short-term debt causing the principal to increase from the prior year.

The total net assets of the City's activities decreased by \$ 1,335,727 during the current year. The decrease was primarily due to depreciation taken against capital assets in 2006.

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

**Table 2**  
Changes in Net Assets

	2006	2005
Revenues		
Program revenues		
Charges for services and sales	\$ 1,987,015	\$ 1,974,515
Operating grants and contributions	11,028	124,789
Capital grants and contributions	304,222	768,889
Total program revenues	2,302,265	2,868,193
General revenues		
Property taxes and special assessment	3,879,085	3,602,646
Income taxes	8,292,094	8,256,212
Grants and entitlements	2,223,221	2,212,141
Interest	75,312	141,500
Miscellaneous	206,511	53,331
Total general revenues	14,676,223	14,265,830
Total revenues	16,978,488	17,134,023
Program expenses		
Security of persons and property	7,797,456	8,020,544
Public health and welfare	383,641	288,088
Leisure time activities	1,295,221	421,261
Community environment	2,270,044	1,992,300
Basic utility services	1,895,462	1,852,101
Transportation	1,657,887	1,388,210
General government	2,545,147	3,122,758
Interest	469,357	442,991
Total program expenses	18,314,215	17,528,253
Decrease in net assets	(1,335,727)	(394,230)
Net asset at beginning of year	31,939,961	32,334,191
Net assets at end of year	\$ 30,604,234	\$ 31,939,961

In 2005, the City posted \$815,171 as general government expenses instead of leisure time activities expenses.

CITY OF PARMA HEIGHTS, OHIO  
 CUYAHOGA COUNTY  
 MANAGEMENT'S DISCUSSION AND ANALYSIS  
 FOR THE YEAR ENDED DECEMBER 31, 2006  
 UNAUDITED

**Governmental Activities**

Several revenue sources fund our governmental activities with property tax and income tax being the largest contributors. In 2006 property tax and special assessments accounted for 22.8% of total revenues, and municipal income tax accounted for 48.8%. The City's municipal income tax rate increased to 3.0% effective January 1, 2005. Grants, contributions and entitlements revenue totaling \$ 2,223,221 accounts for 15.1% of total governmental activity revenue. These funds are comprised of distributions from the State and County.

Security of persons and property, including our Police and Fire Departments, accounted for \$ 7,797,456, which is 42.6% of total governmental activity expenses. General government expenses, including the executive, legislative and administrative functions of our City government activities accounted for the next highest area of expense at \$ 2,569,461 or 14.0%. The remaining 43.4% of the governmental activity expense was divided between the remaining six areas of functional expense.

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

Governmental Activities

	Total Cost	Net Expense
Program expenses		
Security of persons and property	\$ 7,797,456	\$ 7,161,943
Public health and welfare	383,641	(197,441)
Leisure time activities	1,295,221	643,911
Community environment	2,270,044	2,000,934
Basic utility services	1,895,462	1,895,462
Transportation	1,657,887	1,503,665
General government	2,545,147	2,534,119
Interest	469,357	469,357
Total cost of services	\$ 18,314,215	\$ 16,011,950

Charges for services, operating grants and contributions, and capital grants and contributions all reduce the governmental activity expenses. For 2006 there was a difference of \$ 3,315,156 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 \$ 635,513 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, and various operating grants and fees charged for ambulance services.
- Leisure Time Activities Expenses were reduced by \$ 651,310 primarily through charges for services and sales for parks and recreation programs and communication tower site lease payments for tower sites located on recreation properties.
- Community Environment Expenses were reduced by \$ 269,110, in program revenue which consist of building department permit and commercial license fees and a capital grant.

CITY OF PARMA HEIGHTS, OHIO  
CUYAHOGA COUNTY

MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED DECEMBER 31, 2006  
UNAUDITED

- Transportation expenses were reduced by \$ 154,222 in program revenue due primarily to charges for services and sales from the city's share of gasoline tax and motor vehicle license fees and various capital grants.
- General Government Expenses were reduced by \$ 11,028 in program revenues derived primarily from operating grants interest and contributions.

### **Financial Analysis Of The Government's Funds**

Information about the City's governmental funds begins on page 56. These funds are accounted for by using the modified accrual basis of accounting. All governmental funds had total revenues of \$ 16,965,364 and total expenditures of \$ 19,250,452. The most significant fund is the General Fund, which had an unreserved fund balance at year-end of \$ 1,493,985. General Fund expenditures during the year totaled \$ 13,406,417, which were less than revenues by \$ 580,816.

### **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 2006 to reflect changes in circumstances against budgeted estimates. All recommendations for budget amendments are initially presented to the Finance Committee of Council for review before being presented to the full City Council. The whole Council then enacts the budgetary changes by adopting an Amended Appropriations Ordinance. The General Fund supports many of the City's major activities or services, such as Police and Fire Departments, the Department of Public Service, as well as the Legislative and Executive activities. The General Fund is monitored closely, looking for possible revenue short falls or overspending by individual departments.

Original budgeted revenues for the General Fund were \$ 13,317,040, exclusive of transfer in. The final budgeted revenue amount was \$ 14,019,310. The increase in budgeted revenues of \$ 702,270 was due to a variance between the original 2006 revenue budget prepared in the last quarter of 2005 and the final revenue budget prepared in December 2006. Budgeted revenue increases were derived primarily from the following: an increase to property taxes of \$38,327, an increase to estate tax revenues of \$ 292,773, an increase to fines, license and fees in the Mayor's Court of \$ 51,996, an increase to intergovernmental grants of \$ 18,168, an increase to interest revenue of \$ 30,350, an increase to utility taxes of \$ 41,386 and an increase to miscellaneous refund/reimbursements of \$ 16,575, with the inclusion of budgeted transfers-in of \$300,000 and advances in of \$356,900, the total increase in budgeted revenues was approximately \$ 1,235,670. This increase in budgeted revenue was offset by revenue decreases of \$ 151,160 in fines, licenses and permit revenue in the building department and \$ 300,000 in budgeted income tax revenues to arrive at the final net increase in budgeted revenues of \$ 765,000. The City actually received 94.8% of the final budgeted revenue.

The original appropriations or expenditure estimates, for the General Fund was \$ 14,071,063, exclusive of transfers out. The final appropriation total was \$ 13,892,975. The decrease of \$ 178,088 was due to a decrease in the program areas of security of person and property, public health and welfare, leisure time activities, and community environment \$ 265,142. This decrease was offset by budgeted expenditure increases in basic utility services and general government totaling \$ 87,054.

CITY OF PARMA HEIGHTS, OHIO  
 CUYAHOGA COUNTY  
 MANAGEMENT'S DISCUSSION AND ANALYSIS  
 FOR THE YEAR ENDED DECEMBER 31, 2006  
 UNAUDITED

**Capital Assets And Debt Administration**

**Capital Assets**

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

	2006	2005
Land	\$ 1,344,328	\$ 1,344,328
Construction in Process	489,740	2,751,134
Buildings and improvements	2,839,847	3,058,373
Machinery equipment	1,750,277	1,704,617
Infrastructure	27,377,873	26,989,247
	\$ 33,802,065	\$ 35,847,699

The City's total capital assets for governmental activities decreased in 2006 by \$ 2,045,634. This decrease in valuation was derived by applying the net additions of \$406,411 against the net loss on disposal of capital asset value for the current year of \$ 2,452,045. (See Note 7 for additional detailed information on Capital Assets).

**Debt**

As of December 31, 2006, the City of Parma Heights had \$ 10,921,301 in long-term debt obligations, comprised as shown below. Payments due within one year totaled \$ 606,681.

	2006	2005
Loans payable	\$ 968,899	\$ 1,043,756
Bond anticipation notes	2,351,555	2,592,500
Bonds payable		
General obligation bonds	6,415,000	6,415,000
Special assessment bonds	337,049	360,546
Capital lease obligations	93,093	48,387
Compensated absences	755,705	628,711
	\$ 10,921,301	\$ 11,088,900

The City at December 31, 2006, had two bond anticipation notes totaling \$ 2,697,555 for street improvements. These notes will be retired as part of a street improvement bond to be issued in 2007.

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

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

CITY OF PARMA HEIGHTS, OHIO  
CUYAHOGA COUNTY  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED DECEMBER 31, 2006  
UNAUDITED

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

Capital lease obligations consist of the lease purchase of police cruisers and a bus used to transport senior citizens. Three police cruisers leased in 2005 will be repaid by 2007. Three police cruisers leased in 2006 will be repaid by 2008. The senior citizen bus leased in 2006 will be repaid by 2008.

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

State statutes limit the amount of general obligation debt a governmental entity may issue to 10.5% of its total assessed valuation.

Note 8, Note 9, Note 10 and Note 11 of the financial statements presents additional information about the City's debt.

**Current Financial Outlook**

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

The City's income tax rate, which had been 2.0% since 1987, increased to 3.0% effective January 1, 2005. This increase in the income tax rate has generated a 26% increase to income tax revenue. Municipal property taxes have remained consistent since 1988, with minor reductions as existing debt issues are retired and minor increases as property values are adjusted by the County Auditor every six years through a formal reappraisal system. The 2006 reappraisal resulted in a 9.0% increase to the City's assessed valuation.

The City has adopted a street improvement plan to restore our infrastructure and to enhance the quality of our neighborhoods. From 2002 to 2005, the City expended \$ 400,000 per year on resurfacing projects. The City accelerated this plan in 2004 by issuing approximately \$ 4,075,000 in street improvement bonds to resurface approximately 20 streets. This new debt is being serviced from a portion of future vehicle license fees, a portion of ambulance billing fees, as well as available Bond Retirement Fund balances. The key to this aggressive plan is that servicing this debt will not affect the General Fund, thereby providing a means to achieve necessary capital improvements without reducing our operating funds for basic services.

The City is taking an aggressive position in guiding our aging community through a re-birth. As our aging population is being replaced with new young families, we are seeing the housing stock improve as new owners are making improvements. The City itself has participated and facilitated several projects to renovate existing multifamily housing, to create new housing. Recent adoption of cluster home zoning has enabled developers to construct two small housing developments where traditional single-family lot sizes would not have been practical with a third project started in 2006. Recent enactment of a Rental Property Registration and Inspection Ordinance will enhance the Building Department's code enforcement capabilities in an effort to maintain property values and improve the housing stock.



CITY OF PARMA HEIGHTS, OHIO  
CUYAHOGA COUNTY  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED DECEMBER 31, 2006  
UNAUDITED

The City's most aggressive approach to facilitating a re-birth has been developing over the past three years as we work to facilitate a development of new retail, and residential units. This new mixed-use development of residential and retail will not only create new housing opportunities but will create a flow of people into our community to enjoy the retail amenities. The City has facilitated this project by adopting the legislation permitting a Planned Use Development District to accommodate the mixed use zoning on this site. In addition the City has installed utilities and constructed two streets on a special assessment basis to facilitate this mixed-use development.

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

Bids from interested developers have been received and a new developer was selected in early 2007. The project under new ownership will resume construction during the 2007 construction season with a mixed-use development of retail and approximately 90 single family homes. Despite these temporary setbacks this development continues to be viewed with much anticipation as a catalyst for future re-development along our commercial corridor.

**Contacting the City's Finance Department**

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

CITY OF PARMA HEIGHTS, OHIO  
 CUYAHOGA COUNTY, OHIO  
 STATEMENT OF NET ASSETS  
 DECEMBER 31, 2006

	Governmental Activities
<b>Assets</b>	
Equity in pooled cash	\$ 1,112,825
Accounts receivable	42,974
Due from other governments	1,443,599
Inventories and supplies	141,015
Prepaid items	99,077
Taxes receivable	8,873,274
Special assessments receivable	471,400
Capital assets	
Nondepreciable capital assets	1,834,068
Depreciable capital assets, net	31,967,997
<b>Total assets</b>	<b>45,986,229</b>
 <b>Liabilities</b>	
Accounts and contracts payable	109,216
Accrued salaries, wages and benefits	243,850
Accrued interest payable	50,483
Matured bonds and coupons payable	23,126
Due to other governments	620,743
Due to agency fund	206,900
Deferred revenue	3,206,376
Long term liabilities	
Due within one year	2,958,236
Due in more than one year	7,963,065
<b>Total liabilities</b>	<b>15,381,995</b>
 <b>Net assets</b>	
Invested in capital assets, net of related debt	25,988,024
Restricted for:	
Debt service	976,965
Capital projects	59,657
Highway and streets	608,192
Public safety	25,679
Recreation	43,644
Other purposes	283,753
Unrestricted	2,618,320
<b>Total net assets</b>	<b>\$ 30,604,234</b>

See the accompanying notes to the Basic Financial Statements.

CITY OF PARMA HEIGHTS, OHIO  
 CUYAHOGA COUNTY, OHIO  
 STATEMENT OF ACTIVITIES  
 FOR THE YEAR ENDED DECEMBER 31, 2006

	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Assets
		Charges for Services and Sales	Operating Grants Interest and Contributions	Capital Grants and Contributions	
Governmental activities					
Security of persons and property	\$ 7,797,456	\$ 635,513	\$ -	\$ -	\$ (7,161,943)
Public health and welfare	383,641	581,082	-	-	197,441
Leisure time activities	1,295,221	651,310	-	-	(643,911)
Community environment	2,270,044	119,110	-	150,000	(2,000,934)
Basic utility services	1,895,462	-	-	-	(1,895,462)
Transportation	1,657,887	-	-	154,222	(1,503,665)
General government	2,545,147	-	11,028	-	(2,534,119)
Interest	469,357	-	-	-	(469,357)
Total governmental activities	<u>\$ 18,314,215</u>	<u>\$ 1,987,015</u>	<u>\$ 11,028</u>	<u>\$ 304,222</u>	<u>(16,011,950)</u>

General revenues

Property taxes and special assessments levied for:

General purpose	2,781,398
Other purposes	354,201
Debt service	582,412
Capital improvements	161,074

Municipal income taxes levied for:

General purpose	8,292,094
Grants and entitlements not restricted to specific purposes	2,223,221
Interest	75,312
Miscellaneous	206,511

Total general revenues 14,676,223

Change in net assets	(1,335,727)
Net assets at beginning of year	31,939,961
Net assets at end of year	<u>\$ 30,604,234</u>

See the accompanying notes to the Basic Financial Statements.

CITY OF PARMA HEIGHTS, OHIO  
 CUYAHOGA COUNTY, OHIO  
 BALANCE SHEET – GOVERNMENTAL FUNDS  
 DECEMBER 31, 2006

	General	Bond Retirement	Capital Projects	Other Governmental Funds	Total Governmental Funds
<b>Assets</b>					
Equity in pooled cash	\$ 586,905	\$ 394,611	\$ 1,427	\$ 106,756	\$ 1,089,699
Restricted cash	-	23,126	-	-	23,126
Taxes receivable	7,629,397	642,549	-	601,328	8,873,274
Special assessments receivable	-	471,400	-	-	471,400
Due from other governments	723,128	30,200	-	690,271	1,443,599
Accounts receivable	31,974	-	-	11,000	42,974
Inventories and supplies	48,389	-	-	92,626	141,015
Prepaid items	90,206	-	-	8,871	99,077
<b>Total assets</b>	<b><u>\$ 9,109,999</u></b>	<b><u>\$ 1,561,886</u></b>	<b><u>\$ 1,427</u></b>	<b><u>\$ 1,510,852</u></b>	<b><u>\$ 12,184,164</u></b>
<b>Liabilities and fund balances</b>					
<b>Liabilities</b>					
Accounts and contracts payable	\$ 71,393	\$ -	\$ -	\$ 37,823	\$ 109,216
Accrued salaries, wages and benefits	231,835	-	-	12,015	243,850
Accrued interest payable	-	24,314	-	-	24,314
Due to other governments	175,944	-	-	10,044	185,988
Interfund payable	206,900	-	-	-	206,900
Matured bonds and coupons payable	-	23,126	-	-	23,126
Deferred revenue	6,814,596	1,037,023	-	1,127,542	8,979,161
<b>Total liabilities</b>	<b><u>7,500,668</u></b>	<b><u>1,084,463</u></b>	<b><u>-</u></b>	<b><u>1,187,424</u></b>	<b><u>9,772,555</u></b>
<b>Fund balances</b>					
Reserved for encumbrances	25,140	-	-	13,211	38,351
Reserved for prepaid items	90,206	-	-	8,871	99,077
Unreserved, reported in					
General Fund	1,493,985	-	-	-	1,493,985
Special Revenue Funds	-	-	-	266,626	266,626
Debt Service Fund	-	477,423	-	-	477,423
Capital Projects Funds	-	-	1,427	34,720	36,147
<b>Total fund balances</b>	<b><u>1,609,331</u></b>	<b><u>477,423</u></b>	<b><u>1,427</u></b>	<b><u>323,428</u></b>	<b><u>2,411,609</u></b>
<b>Total liabilities and fund balances</b>	<b><u>\$ 9,109,999</u></b>	<b><u>\$ 1,561,886</u></b>	<b><u>\$ 1,427</u></b>	<b><u>\$ 1,510,852</u></b>	<b><u>\$ 12,184,164</u></b>

See the accompanying notes to the Basic Financial Statements.

CITY OF PARMA HEIGHTS, OHIO  
 CUYAHOGA COUNTY, OHIO  
 RECONCILIATION OF TOTAL GOVERNMENTAL FUND BALANCES TO  
 NET ASSETS OF GOVERNMENTAL ACTIVITIES  
 DECEMBER 31, 2006

Total governmental funds balances		\$	2,411,609
Amount reported for governmental activities in the statement of net assets are different because:			
Capital assets used in governmental activities are not financial resources and therefore not reported in the funds.			33,802,065
Other long term assets are not available to pay for current period expenditures and therefore are deferred in the funds:			
Property and other local taxes	204,821		
Municipal income tax	3,834,202		
Intergovernmental	1,226,014		
Special assessments	471,400		
Miscellaneous	36,348		
Total			5,772,785
Due to other governments includes contractually required pension contributions not expected to be paid with expendable available resources and therefore not reported in the funds.			(434,755)
In the statement of activities, interest is accrued on outstanding long term obligations, whereas in governmental funds, an interest expenditure is reported when due.			(26,169)
Long-term liabilities are not due and payable in the current period and therefore are not reported in the funds:			
Loans payable	(968,899)		
Note payable	(2,351,555)		
General obligation bonds	(6,415,000)		
Special assessment bonds	(337,049)		
Capital leases	(93,093)		
Compensated absences	(755,705)		
			(10,921,301)
Net assets of governmental activities		\$	30,604,234

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, 2006

	General	Bond Retirement	Capital Projects	Other Governmental Funds	Total Governmental Funds
<b>Revenues</b>					
Property and other local taxes	\$ 2,874,825	\$ 552,253	\$ -	\$ 513,491	\$ 3,940,569
Municipal income taxes	8,157,551	-	-	-	8,157,551
Intergovernmental	1,461,369	60,289	112,467	923,128	2,557,253
Special assessments	-	83,152	-	-	83,152
Charges for services	676,074	-	-	451,365	1,127,439
Fines, licenses and permits	594,026	-	-	5,225	599,251
Interest	48,718	21,324	1,777	3,493	75,312
Miscellaneous	174,670	-	-	250,167	424,837
<b>Total revenues</b>	<b>13,987,233</b>	<b>717,018</b>	<b>114,244</b>	<b>2,146,869</b>	<b>16,965,364</b>
<b>Expenditures</b>					
<b>Current</b>					
Security of persons and property	7,591,440	-	-	227,328	7,818,768
Public health and welfare	492,276	-	-	-	492,276
Leisure time activities	226,369	-	-	881,341	1,107,710
Community environment	2,773,566	-	-	295,704	3,069,270
Basic utility services	230,456	-	-	-	230,456
Transportation	-	-	-	489,165	489,165
General government	2,028,682	-	-	29,846	2,058,528
Capital outlay	-	-	22,800	356,944	379,744
<b>Debt service</b>					
Principal	-	3,070,854	-	-	3,070,854
Capital lease	63,256	-	-	-	63,256
Interest and fiscal charges	372	470,053	-	-	470,425
<b>Total expenditures</b>	<b>13,406,417</b>	<b>3,540,907</b>	<b>22,800</b>	<b>2,280,328</b>	<b>19,250,452</b>
<b>Excess (deficiency) of revenues over expenditures</b>	<b>580,816</b>	<b>(2,823,889)</b>	<b>91,444</b>	<b>(133,459)</b>	<b>(2,285,088)</b>
<b>Other financing sources (uses)</b>					
Transfers-in	-	125,000	-	162,000	287,000
Transfers-out	(162,000)	-	-	(125,000)	(287,000)
Note proceeds	-	2,351,555	-	-	2,351,555
Bond proceeds	-	380,000	-	-	380,000
Capital lease proceeds	107,962	-	-	-	107,962
<b>Total other financing sources (uses)</b>	<b>(54,038)</b>	<b>2,856,555</b>	<b>-</b>	<b>37,000</b>	<b>2,839,517</b>
<b>Excess (deficiency) of revenues over expenditures and other sources (uses)</b>	<b>526,778</b>	<b>32,666</b>	<b>91,444</b>	<b>(96,459)</b>	<b>554,429</b>
<b>Fund balances, beginning of year</b>	<b>1,082,553</b>	<b>444,757</b>	<b>(90,017)</b>	<b>419,887</b>	<b>1,857,180</b>
<b>Fund balances, end of year</b>	<b>\$ 1,609,331</b>	<b>\$ 477,423</b>	<b>\$ 1,427</b>	<b>\$ 323,428</b>	<b>\$ 2,411,609</b>

See the accompanying notes to the Basic Financial Statements.

CITY OF PARMA HEIGHTS, OHIO  
CUYAHOGA COUNTY, OHIO

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

FOR THE YEAR ENDED DECEMBER 31, 2006

Net change in fund balances - total governmental funds		\$ 554,429
<p>Amounts reported for governmental activities in the statement of activities are different because:</p>		
<p>Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their useful lives and reported as depreciation expense. This is the amount by which depreciation expense exceeded capital outlay in the current period.</p>		
	Capital outlay	604,362
	Loss on disposal of assets	(58,413)
	Depreciation expense	<u>(2,591,583)</u>
		(2,045,634)
<p>Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.</p>		
	Municipal income tax	134,543
	Property and other local taxes	(89,736)
	Miscellaneous	3,218
	Special assessments	(54,900)
	Intergovernmental	<u>20,000</u>
		13,125
<p>Repayment of debt principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets.</p>		
	Loan principal paid	74,857
	Bond principal paid	2,995,997
	Capital lease principal paid	<u>63,256</u>
		3,134,110
<p>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 assets.</p>		
		(2,839,518)
<p>In the statement of activities, interest is accrued on outstanding debt, whereas in governmental funds, an interest expenditure is reported when due.</p>		
		1,068
<p>Some expenses reported in the statement of activities, such as compensated absences and intergovernmental payable which represents contractually required pension contributions, do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds.</p>		
	Compensated absences	(152,595)
	Intergovernmental	<u>(712)</u>
		<u>(153,307)</u>
Change in net assets of governmental activities		<u>\$ (1,335,727)</u>

See the accompanying notes to the Basic Financial Statements.

CITY OF PARMA HEIGHTS, OHIO  
CUYAHOGA COUNTY, OHIO

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

FOR THE YEAR ENDED DECEMBER 31, 2006

	Budgeted Amounts		Actual	Variance with
	Original	Final		Final Budget
				Positive
				(Negative)
Revenues				
Property and other local taxes	\$ 2,446,068	\$ 2,501,200	\$ 2,734,196	\$ 232,996
Municipal income taxes	8,444,186	8,946,339	8,180,788	(765,551)
Intergovernmental	1,464,498	1,551,588	1,418,816	(132,772)
Charges for services	125,945	811,206	641,674	(169,532)
Fines, licenses and permits	613,152	649,614	594,026	(55,588)
Interest	41,640	44,116	48,718	4,602
Miscellaneous	181,551	192,347	175,888	(16,459)
Total revenue	<u>13,317,040</u>	<u>14,696,410</u>	<u>13,794,106</u>	<u>(902,304)</u>
Expenditures				
Current				
Security of persons and property	7,927,780	7,781,671	7,774,597	7,074
Public health and welfare	369,433	330,850	497,474	(166,624)
Leisure time activities	246,065	227,165	226,422	743
Community environment	2,829,600	2,768,050	2,765,285	2,765
Basic utility services	205,485	238,485	231,143	7,342
General government	2,492,700	2,602,954	2,231,806	371,148
Total expenditures	<u>14,071,063</u>	<u>14,081,025</u>	<u>13,726,727</u>	<u>354,298</u>
Excess (deficiency) of revenues over expenditures	<u>(754,023)</u>	<u>615,385</u>	<u>67,379</u>	<u>(548,006)</u>
Other financing sources (uses)				
Transfers-in	-	50,000	43,118	(6,882)
Advance in	-	356,900	356,900	-
Transfers-out	-	(212,000)	(162,000)	50,000
Advance out	-	(150,000)	-	150,000
Total other financing sources (uses)	<u>-</u>	<u>44,900</u>	<u>238,018</u>	<u>193,118</u>
Excess (deficiency) of revenues over expenditures and other sources (uses)	<u>(754,023)</u>	<u>660,285</u>	<u>305,397</u>	<u>(354,888)</u>
Prior year encumbrances	19,637	19,637	19,637	-
Fund balance, at beginning of year	<u>186,140</u>	<u>186,140</u>	<u>186,140</u>	<u>-</u>
Fund balance, at end of year	<u>\$ (548,246)</u>	<u>\$ 866,062</u>	<u>\$ 511,174</u>	<u>\$ (354,888)</u>

See the accompanying notes to the Basic Financial Statements.



CITY OF PARMA HEIGHTS, OHIO  
CUYAHOGA COUNTY, OHIO  
STATEMENT OF FIDUCIARY ASSETS AND LIABILITIES  
AGENCY FUNDS  
DECEMBER 31, 2006

Assets	
Equity in pooled cash	77,061
Accounts receivable	121,355
Due from general fund	<u>206,900</u>
Total assets	<u><u>405,316</u></u>
Liabilities	
Accounts payable	250
Accrued interest	1,080
Due to other governments	23,882
Due to others	34,104
Note payable	<u>346,000</u>
Total liabilities	<u><u>405,316</u></u>

See the accompanying notes to the Basic Financial Statements.

CITY OF PARMA HEIGHTS, OHIO  
CUYAHOGA COUNTY, OHIO  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
DECEMBER 31, 2006

NOTE 1 - DESCRIPTION OF THE CITY AND REPORTING ENTITY

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

Reporting Entity

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

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

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

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

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

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

CITY OF PARMA HEIGHTS, OHIO  
CUYAHOGA COUNTY, OHIO  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
DECEMBER 31, 2006

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

A. BASIS OF PRESENTATION

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

Government-wide Financial Statements

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

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

Fund Financial Statements

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

B. FUND ACCOUNTING

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

CITY OF PARMA HEIGHTS, OHIO  
CUYAHOGA COUNTY, OHIO  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
DECEMBER 31, 2006

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

B. FUND ACCOUNTING (continued)

Governmental Funds

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

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

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

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

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

Proprietary Funds

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

Fiduciary Funds

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

C. MEASUREMENT FOCUS

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

CITY OF PARMA HEIGHTS, OHIO  
CUYAHOGA COUNTY, OHIO  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
DECEMBER 31, 2006

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

C. MEASUREMENT FOCUS(continued)

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

D. BASIS OF ACCOUNTING

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

Revenues – Exchange and Non-exchange Transactions

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

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

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

CITY OF PARMA HEIGHTS, OHIO  
CUYAHOGA COUNTY, OHIO  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
DECEMBER 31, 2006

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

D. BASIS OF ACCOUNTING (continued)

Deferred Revenue

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

Property taxes for which there is an enforceable legal claim as of December 31, 2006, but which were levied to finance year 2007 operations, have been recorded as deferred revenue. Special assessments not received within the available period and grants and entitlements received before the eligibility requirements are met are also recorded as deferred revenue.

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

Expenses/Expenditures

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

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

E. BUDGETARY PROCESS

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

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

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

CITY OF PARMA HEIGHTS, OHIO  
 CUYAHOGA COUNTY, OHIO  
 NOTES TO THE BASIC FINANCIAL STATEMENTS  
 DECEMBER 31, 2006

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

F. CASH AND CASH EQUIVALENTS

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

Except for investment contracts and money market investments that had a remaining maturity of one year or less at the time of purchase, investments are reported at fair value, which is based on quoted market prices. Investment contracts and money market investments that had a remaining maturity of one year or less at the time of purchase are reported at cost or amortized cost. The City has invested funds in the State Treasury Asset Reserve of Ohio (STAROhio). STAROhio is an investment pool managed by the State Treasurer's Office, which allows governments within the State to pool their funds for investment purposes. STAROhio is not registered with the SEC as an investment company, but does operate in a manner consistent with Rule 2a7 of the Investment Company Act of 1940. Investments in STAROhio are valued at STAROhio's share price, which is the price the investment could be sold for on December 31, 2006.

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

	Actual Interest Credited	Amount Assigned From Other City Funds
General	\$ 48,718	\$ 22,387

G. INVENTORY

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

H. PREPAID ITEMS

Payments made to vendors for services that will benefit periods beyond December 31, 2006, are recorded as prepaid items using the consumption method by recording a current asset for the prepaid amount and reflecting the expense in the year in which it was consumed.

CITY OF PARMA HEIGHTS, OHIO  
 CUYAHOGA COUNTY, OHIO  
 NOTES TO THE BASIC FINANCIAL STATEMENTS  
 DECEMBER 31, 2006

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

I. CAPITAL ASSETS

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

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

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

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

J. INTERFUND BALANCES

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

K. COMPENSATED ABSENCES

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

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



CITY OF PARMA HEIGHTS, OHIO  
CUYAHOGA COUNTY, OHIO  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
DECEMBER 31, 2006

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

L. ACCRUED LIABILITIES AND LONG-TERM OBLIGATIONS

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

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

M. FUND BALANCE RESERVES

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

N. NET ASSETS

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

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

O. INTERFUND ACTIVITY

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

P. EXTRAORDINARY AND SPECIAL ITEMS

Extraordinary items are transactions or events that are both unusual in nature and infrequent in occurrence. Special items are transactions or events that are within the control of the City Administration and that are either unusual in nature or infrequent in occurrence. Neither type of transaction occurred during 2006.

CITY OF PARMA HEIGHTS, OHIO  
 CUYAHOGA COUNTY, OHIO  
 NOTES TO THE BASIC FINANCIAL STATEMENTS  
 DECEMBER 31, 2006

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Q. ESTIMATES

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

NOTE 3 – BUDGETARY BASIS OF ACCOUNTING

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

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

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

Net Change in Fund Balance	General Fund
Budget basis	\$ 305,397
Adjustments, increase (decrease)	
Revenue accruals	(98,929)
Expenditure accruals	320,310
GAAP basis, as reported	\$ 526,778

CITY OF PARMA HEIGHTS, OHIO  
CUYAHOGA COUNTY, OHIO  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
DECEMBER 31, 2006

NOTE 4 – ACCOUNTABILITY AND COMPLIANCE

A. COMPLIANCE

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

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

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

Contrary to Ohio Rev. Code Sections 5705.14, 5705.15, and 5705.16, the City made a transfer and advance, which did not eliminate an internal balance, into the General Fund from the Deposit Trust Fund. The City made such transfers under the authority of City Ordinance, only. In 2007, the City passed an ordinance to reverse the transfer and the advance was repaid in 2006.

NOTE 5 – DEPOSITS AND INVESTMENTS

A. LEGAL REQUIREMENTS

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

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

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

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

- 1) United States treasury notes, bills, bonds, or any other obligation or security issued by the United States treasury or any other obligation guaranteed as to principal and interest by the United States;

CITY OF PARMA HEIGHTS, OHIO  
CUYAHOGA COUNTY, OHIO  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
DECEMBER 31, 2006

NOTE 5 – DEPOSITS AND INVESTMENTS (continued)

A. LEGAL REQUIREMENTS

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

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

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

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

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

B. DEPOSITS

Custodial Credit Risk. Custodial credit risk for deposits is the risk that in the event of bank failure, the City will not be able to recover deposits or collateral securities that are in the possession of an outside party. At year end, the carrying amount of the City's deposits was \$ 839,265 and the bank balance was \$ 1,402,367.

Of the bank balance, \$ 283,321 is collateralized by federal depository insurance and \$ 1,119,046 was uninsured. Of the remaining balance, \$ 1,119,046 was collateralized with securities held by the pledging institution's trust department not in the District's name.

CITY OF PARMA HEIGHTS, OHIO  
 CUYAHOGA COUNTY, OHIO  
 NOTES TO THE BASIC FINANCIAL STATEMENTS  
 DECEMBER 31, 2006

NOTE 5 – DEPOSITS AND INVESTMENTS (continued)

B. DEPOSITS

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

C. INVESTMENTS

As of December 31, 2006, the City had the following investments.

	Maturities	Fair Value
Manuscript bonds	n/a	\$ 337,049
Investment in STAROhio	n/a	13,572
		\$ 350,621

D. INTEREST RATE RISK

The City has no investment policy that addresses interest rate risk. State statute requires that an investment mature within five years from the date of purchase, unless matched to a specific obligation or debt of the City, and that an investment must be purchased with the expectation that it will be held to maturity. State statute limits investments in commercial paper to a maximum maturity of 180 days from the date of purchase. Repurchase agreements are limited to 30 days and the market value of the securities must exceed the principal value of the agreement by at least 2 percent and be marked to market daily.

E. CREDIT RISK

The City follows the Ohio Revised Code that limits its investment choices. As of December 31, 2006, the City's investments in StarOhio were rated AAAM by Standard & Poor's. Ohio law requires that StarOhio maintain the highest rating provided by at least one nationally recognized standard rating service.

F. CONCENTRATION OF CREDIT RISK

The City places no limit on the amount that may be invested in any one issuer. The City's allocation as of December 31, 2006 was 3.9 percent invested in STAR Ohio and 96.1 percent invested in manuscript bonds.

NOTE 6 – RECEIVABLES

Receivables at December 31, 2006, 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 \$ 415,025 in the Bond Retirement Fund. At December 31, 2006 the amount of delinquent special assessments was \$ 7,743.

CITY OF PARMA HEIGHTS, OHIO  
 CUYAHOGA COUNTY, OHIO  
 NOTES TO THE BASIC FINANCIAL STATEMENTS  
 DECEMBER 31, 2006

NOTE 6 – RECEIVABLES (continued)

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 2006 for real and public utility property taxes represents collections of the 2005 taxes. Property tax payments received during 2006 for tangible personal property (other than public utility property) is for 2005 taxes.

2007 real property taxes are levied after October 1, 2006, on the assessed value as of January 1, 2006, the lien date. Assessed values are established by State law at 35 percent of appraised market value. 2006 real property taxes are collected in and intended to finance 2007.

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. 2006 public utility property taxes became a lien December 31, 2005, are levied after October 1, 2006, and are collected in 2007 with real property taxes.

2006 tangible personal property taxes are levied after October 1, 2005, on the value as of December 31, 2005. Collections are made in 2006. Tangible personal property assessments are 25 percent of true value.

The full tax rate for all City operations for the year ended December 31, 2006, was \$10.20 per \$1,000 of assessed value. The assessed values of real and tangible personal property upon which 2006 property tax receipts were based are as follows:

Real property - 2006	
Residential/agricultural	\$ 294,256,180
Other real estate	88,162,060
Tangible personal property - 2006	
General	8,673,978
Public utilities	6,473,870
Total valuation	\$ 397,566,088

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

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

B. INCOME TAXES

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

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

CITY OF PARMA HEIGHTS, OHIO  
 CUYAHOGA COUNTY, OHIO  
 NOTES TO THE BASIC FINANCIAL STATEMENTS  
 DECEMBER 31, 2006

NOTE 6 – RECEIVABLES (continued)

C. DUE FROM OTHER GOVERNMENTS

A summary of due from other governments follows:

Homestead and rollback	\$ 179,900
Gasoline Tax	360,250
Grants	163,894
Local government	583,277
Motor vehicle	68,000
Auto registration	82,422
Miscellaneous	5,856
	<u>\$ 1,443,599</u>

NOTE 7 – CAPITAL ASSETS

Capital asset activity for the year ended December 31, 2006, was as follows:

	Balance 12/31/05	Addition	Disposals	Balance 12/31/06
Governmental Activities				
Nondepreciable capital assets				
Land	\$ 1,344,328	\$ -	\$ -	\$ 1,344,328
Construction in process	2,751,134	132,238	2,393,632	489,740
	<u>4,095,462</u>	<u>132,238</u>	<u>2,393,632</u>	<u>1,834,068</u>
Depreciable capital assets				
Buildings and improvements	8,429,356	54,782	-	8,484,138
Machinery and equipment	5,251,004	403,604	378,969	5,275,639
Infrastructure	68,644,761	2,407,370	78,790	70,973,341
Total capital assets being depreciated	<u>82,325,121</u>	<u>2,865,756</u>	<u>457,759</u>	<u>84,733,118</u>
Less accumulated depreciation				
Buildings and improvements	5,370,983	273,308	-	5,644,291
Machinery and equipment	3,546,387	326,123	347,148	3,525,362
Infrastructure	41,655,514	1,992,152	52,198	43,595,468
Total accumulated depreciation	<u>50,572,884</u>	<u>2,591,583</u>	<u>399,346</u>	<u>52,765,121</u>
Depreciable capital assets, net of accumulated depreciation	<u>31,752,237</u>	<u>274,173</u>	<u>58,413</u>	<u>31,967,997</u>
Governmental activities capital assets, net	<u>\$ 35,847,699</u>	<u>\$ 406,411</u>	<u>\$ 2,452,045</u>	<u>\$ 33,802,065</u>

CITY OF PARMA HEIGHTS, OHIO  
 CUYAHOGA COUNTY, OHIO  
 NOTES TO THE BASIC FINANCIAL STATEMENTS  
 DECEMBER 31, 2006

NOTE 7 – CAPITAL ASSETS (continued)

Depreciation expense was charged to governmental functions as follows:

General government	\$ 65,429
Security of persons and property	187,326
Transportation	1,284,018
Basic utility services	870,283
Leisure time activities	184,527
Total depreciation expense	<u>\$ 2,591,583</u>

NOTE 8 – NOTES PAYABLE

Notes payable during the year consisted of the following bond anticipation note recorded in the agency fund:

	Outstanding 12/31/05	Additions	Reductions	Outstanding 12/31/06
Bond anticipation note, maturity 9-20-07, 3.80%	<u>\$ -</u>	<u>\$ 346,000</u>	<u>\$ -</u>	<u>\$ 346,000</u>

On November 13, 2006, the City adopted an ordinance authorizing the sale of a one year note in the principal amount of \$346,000. The proceeds of this note represented capitalization of various legal, engineering, surveying, appraisal and other fees associated with the development of a commercial property within the City. Pursuant to the development agreement entered into between the City and the owner of the property under development, all development cost incurred by the City were to be reimbursed to the City by the developer. Inasmuch as these development expenses were incurred from the City's Deposit Trust Fund, the proceeds of the \$ 346,000 note were deposited into the Deposit Trust Fund prior to December 31, 2006.



CITY OF PARMA HEIGHTS, OHIO  
 CUYAHOGA COUNTY, OHIO  
 NOTES TO THE BASIC FINANCIAL STATEMENTS  
 DECEMBER 31, 2006

NOTE 9 – LONG-TERM DEBT

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

	<u>Original Issue Date</u>	<u>Maturity Date</u>	<u>Interest Rate</u>	<u>Original Issue Amount</u>
General obligation bonds				
Library improvements	1988	2009	6.30% - 10.0%	\$ 1,000,000
Recreational facilities improvement	2001	2021	2.00% - 5.50%	2,750,000
Street improvement	2004	2019	2.00% - 5.00%	4,075,000
Various purpose improvements	2006	2011	4.00% - 4.25%	380,000
Special assessment bonds				
Retaining wall improvements	1990	2010	7.50%	32,772
Street improvements	1992	2012	6.25%	20,278
Street improvements	1995	2015	6.25%	28,513
Street improvements	1995	2015	6.20%	98,963
Street improvements	1998	2017	6.25%	40,008
Street improvements	1999	2019	5.75%	320,000
Ohio Public Works loan	1999	2019	0.00%	356,940
Ohio Public Works loan	1999	2019	0.00%	360,306
Ohio Public Works loan	2002	2022	0.00%	368,333
Ohio Public Works loan	2002	2022	0.00%	185,183
Ohio Water Development Authority loan	1995	2015	4.18%	218,870

CITY OF PARMA HEIGHTS, OHIO  
 CUYAHOGA COUNTY, OHIO  
 NOTES TO THE BASIC FINANCIAL STATEMENTS  
 DECEMBER 31, 2006

NOTE 9 – LONG-TERM DEBT (continued)

Changes in the City's long-term obligations during 2006 were as follows:

	Outstanding 12/31/05	Additions	Reductions	Outstanding 12/31/06	Amount Due In One Year
<b>Bond anticipation notes</b>					
Maturity 7-12-06, 3.25%	\$ 265,500	\$ -	\$ 265,500	\$ -	\$ -
Maturity 7-12-06, 4.08%	75,000	-	75,000	-	-
Maturity 9-22-06, 3.25%	2,252,000	-	2,252,000	-	-
Maturity 9-20-07, 3.80%	-	2,351,555	-	2,351,555	2,351,555
	<u>2,592,500</u>	<u>2,351,555</u>	<u>2,592,500</u>	<u>2,351,555</u>	<u>2,351,555</u>
<b>General obligations bonds:</b>					
Library improvements	\$ 200,000	\$ -	\$ 50,000	\$ 150,000	\$ 50,000
Recreational facilities improvement	2,365,000	-	100,000	2,265,000	100,000
Street improvements	3,850,000	-	230,000	3,620,000	230,000
Various purpose improvement	-	380,000	-	380,000	70,000
Total general obligation bonds	<u>6,415,000</u>	<u>380,000</u>	<u>380,000</u>	<u>6,415,000</u>	<u>450,000</u>
<b>Special assessment bonds:</b>					
Retaining wall improvements	8,192	-	1,639	6,553	1,639
Street improvements	7,097	-	1,014	6,083	1,014
Street improvements	14,257	-	1,426	12,831	1,426
Street improvements	49,482	-	4,948	44,534	4,948
Street improvements	24,000	-	2,000	22,000	2,000
Street improvements	257,518	-	12,470	245,048	13,188
Total special assessment bonds	<u>360,546</u>	<u>-</u>	<u>23,497</u>	<u>337,049</u>	<u>24,215</u>
<b>Ohio Public Works commission loans:</b>					
Concrete street reconstruction	232,012	-	17,847	214,165	17,847
Concrete street reconstruction	234,199	-	18,015	216,184	18,015
Concrete street reconstruction	303,874	-	18,417	285,457	18,417
Concrete street reconstruction	152,776	-	9,259	143,517	9,259
	<u>922,861</u>	<u>-</u>	<u>63,538</u>	<u>859,323</u>	<u>63,538</u>
<b>Ohio Water Development Authority Loans</b>					
Authority Loans	120,895	-	11,319	109,576	11,797
Capital lease obligations	<u>48,387</u>	<u>107,962</u>	<u>63,256</u>	<u>93,093</u>	<u>57,131</u>
Compensated absences	628,711	126,994	-	755,705	-
	<u>\$ 11,088,900</u>	<u>\$ 2,966,511</u>	<u>\$ 3,134,110</u>	<u>\$ 10,921,301</u>	<u>\$ 2,958,236</u>

Bond anticipation notes, general obligation bonds, and loans will be repaid from the Bond Retirement Fund. The capital leases will be repaid from the general fund. Compensated absences will be repaid from the funds from which employees' salaries are paid.

CITY OF PARMA HEIGHTS, OHIO  
 CUYAHOGA COUNTY, OHIO  
 NOTES TO THE BASIC FINANCIAL STATEMENTS  
 DECEMBER 31, 2006

NOTE 9 – LONG-TERM DEBT (continued)

Debt service requirements to retire bonds payable and loans payable outstanding at December 31, 2006 consisted of:

Year	Principal	Interest	Total
2007	2,901,105	306,473	3,207,578
2008	570,807	288,720	859,527
2009	587,128	268,104	855,232
2010	558,514	247,197	805,711
2011	568,339	841,060	1,409,399
2012-2016	2,622,418	257,108	2,879,526
2017-2021	2,250,359	-	2,250,359
2022	13,833	-	13,833
	<u>\$ 10,072,503</u>	<u>\$ 2,208,662</u>	<u>\$ 12,281,165</u>

NOTE 10 – CONDUIT DEBT

The City entered into a lease-purchase agreement with Parma Community General Hospital Association to provide the Hospital with the financial means to purchase equipment. The payments contained in this lease-purchase agreement are not general obligations, debt or bonded indebtedness of the City. The outstanding balance at December 31, 2006 was \$ 1,590,986.

NOTE 11 – CAPITAL LEASE

The City is obligated under certain leases accounted for as capital leases. Assets under capital lease totaled \$ 197,406 at December 31, 2006. The leases are in effect through 2008. 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, 2006.

	Amount
2007	\$ 63,256
2008	37,649
Total minimum lease payments	100,905
Less amount representing interest	7,812
Net present value of minimum lease payments	<u>\$ 93,093</u>

CITY OF PARMA HEIGHTS, OHIO  
 CUYAHOGA COUNTY, OHIO  
 NOTES TO THE BASIC FINANCIAL STATEMENTS  
 DECEMBER 31, 2006

**NOTE 12 – INTERFUND TRANSFERS**

Council authorized the transfers of \$162,000 from the general fund to nonmajor funds and \$125,000 from the nonmajor funds to the debt retirement fund. These transfers were to reclassify accumulated general revenues from fees and for reimbursements for expenditures paid by the general fund. Transfers to the bond retirement fund were for payment of debt principal and interest.

Transfers to:	Transfer from:		
	General Fund	Nonmajor Funds	Total
Debt Retirement	\$ -	\$ 125,000	\$ 125,000
Nonmajor funds	162,000	-	162,000
	\$ 162,000	\$ 125,000	\$ 287,000

**NOTE 13 – DEFINED BENEFIT PENSION PLANS**

**A. OHIO PUBLIC EMPLOYEES RETIREMENT SYSTEM**

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

OPERS provides retirement, disability, survivor and death benefits and annual cost of living adjustments to members of the traditional and combined plans. Members of the member directed plan do not qualify for ancillary benefits. Authority to establish and amend benefits is provided by Chapter 145 of the Ohio Revised Code. OPERS issues a stand-alone financial report that may be obtained by writing to OPERS, 277 East Town Street, Columbus, OH 43215-4642 or by calling (614) 222-5601 or (800) 222-7377.

For the year ended December 31, 2006, the members of all three plans, except those in law enforcement or public safety participating in the traditional plan, were required to contribute 9 percent of their annual covered salaries. Members participating in the traditional plan who were in law enforcement contributed 10.1 percent of their annual covered salary. The employer contribution rate for pension benefits for 2006 was 13.7 percent, except for those plan members in law enforcement or public safety. For those classifications, the employer's pension contributions were 16.93 percent of covered payroll. The Ohio Revised Code provides statutory authority for member and employer contributions.

CITY OF PARMA HEIGHTS, OHIO  
CUYAHOGA COUNTY, OHIO  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
DECEMBER 31, 2006

NOTE 13 – DEFINED BENEFIT PENSION PLANS (continued)

A. OHIO PUBLIC EMPLOYEES RETIREMENT SYSTEM (continued)

The City's required contributions for pension obligations for all plans for the years ended December 31, 2006, 2005, and 2004 were \$ 378,519, \$ 322,450, and \$ 489,411, respectively; 75 percent has been contributed for 2006 and 100 percent for 2005 and 2004.

B. OHIO POLICE AND FIRE PENSION FUND

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

Plan members are required to contribute 10 percent of their annual covered salary to fund pension obligations. The City's contribution was 19.5 percent for police officers and 24 percent for firefighters. Contribution rates are established by State statute. For 2007, a portion of the City's contribution equal to 6.75 percent of covered payroll was allocated to fund the post-employment health care plan. The City's pension contributions to OP&F for police and firefighters were \$307,741 and \$340,075 for the year ended December 31, 2006, \$341,962 and \$313,138 for the year ended December 31, 2005, and \$334,948 and \$366,651 for the year ended December 31, 2007. The full amount has been contributed for 2005 and 2004. 76 percent has been contributed for police and 76 percent has been contributed for firefighters for 2006.

NOTE 14 – POSTEMPLOYMENT BENEFITS

A. OHIO PUBLIC EMPLOYEES RETIREMENT SYSTEM

The Ohio Public Employees Retirement System (OPERS) provides postretirement health care coverage to age and service retirees with ten or more years of qualifying Ohio service credit with either the traditional or combined plans. Health care coverage for disability benefit recipients and qualified survivor benefit recipients is available. Members of the member-directed plan do not qualify for postretirement health care coverage. A portion of each employer's contribution to the traditional or combined plans is set aside for the funding of postretirement health care based on authority granted by State statute. The 2006 local government employer contribution rate was 13.7 percent of covered payroll (16.93 percent for public safety and law enforcement); 4.5 percent of covered payroll was the portion that was used to fund health care.

Benefits are advance-funded using the entry age normal actuarial cost method. Significant actuarial assumptions, based on OPERS's latest actuarial review performed as of December 31, 2005, include a rate of return on investments of 6.5 percent, an annual increase in active employee total payroll of 4 percent compounded annually (assuming no change in the number of active employees) and an additional increase in total payroll of between 0.50 percent and 6.3 percent based on additional annual pay increases. Health care costs were assumed to increase between 0.5 and 6.0 percent annually for the next nine years and 4.0 percent annually after nine years

CITY OF PARMA HEIGHTS, OHIO  
CUYAHOGA COUNTY, OHIO  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
DECEMBER 31, 2006

NOTE 14 – POSTEMPLOYMENT BENEFITS (continued)

A. OHIO PUBLIC EMPLOYEES RETIREMENT SYSTEM (continued)

All investments are carried at market value. For actuarial valuation purposes, a smoothed market approach is used. Assets are adjusted to reflect 25 percent of unrealized market appreciation or depreciation on investment assets annually, not to exceed a 12 percent corridor.

The number of active contributing participants in the traditional and combined plans was 369,214. The number of active contributing participants for both plans used in the December 31, 2005, actuarial valuation was 358,804. Actual City contributions for 2005 which were used to fund postemployment benefits were \$185,145. The actual contribution and the actuarially required contribution amounts are the same. The actuarial value of OPERS's net assets available for payment of benefits at December 31, 2005, (the latest information available) was \$ 11.1 billion. The actuarially accrued liability and the unfunded actuarial accrued liability were \$31.3 billion and \$20.2 billion, respectively.

On September 9, 2004, the OPERS Retirement Board adopted a Health Care Preservation Plan (HCPP) with an effective date of January 1, 2007. To improve the solvency of the health care fund, OPERS created a separate investment pool for health care assets. Member and employer contribution rates increased as of January 1, 2006 and January 1, 2007, which will allow additional funds to be allocated to the health care plan.

B. OHIO POLICE AND FIRE PENSION FUND

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

The Ohio Revised Code provides the authority allowing the Ohio Police and Fire Pension Fund's board of trustees to provide health care coverage and states that health care costs paid from the funds of OP&F shall be included in the employer's contribution rate. Health care funding and accounting is on a pay-as-you-go basis. The total police employer contribution rate is 19.5 percent of covered payroll and the total firefighter employer contribution rate is 24 percent of covered payroll, of which 7.75 percent of covered payroll was applied to the postemployment health care program during 2006 and 2005. In addition, since July 1, 1992, most retirees and survivors have been required to contribute a portion of the cost of their health care coverage through a deduction from their monthly benefit payment. Beginning in 2001, all retirees and survivors have monthly health care contributions.

The City's actual contributions for 2006 that were used to fund postemployment health care benefits were \$202,978 for police and \$162,190 for firefighters. The OP&F's total health care expense for the year ended December 31, 2005 was \$108,039,449, which was net of member contributions of \$55,271,881. The number of OP&F participants eligible to receive health care benefits as of December 31, 2005, was 13,922 for police and 10,537 for firefighters

CITY OF PARMA HEIGHTS, OHIO  
CUYAHOGA COUNTY, OHIO  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
DECEMBER 31, 2006

NOTE 15 – JOINTLY GOVERNED ORGANIZATION

A. SOUTHWEST COUNCIL OF GOVERNMENTS

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

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

B. PARMA COMMUNITY GENERAL HOSPITAL ASSOCIATION

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

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

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

C. NORTHEAST OHIO PUBLIC ENERGY COUNCIL

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

CITY OF PARMA HEIGHTS, OHIO  
 CUYAHOGA COUNTY, OHIO  
 NOTES TO THE BASIC FINANCIAL STATEMENTS  
 DECEMBER 31, 2006

NOTE 15 – JOINTLY GOVERNED ORGANIZATION (continued)

C. NORTHEAST OHIO PUBLIC ENERGY COUNCIL (continued)

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

NOTE 16 – CONTRACTUAL COMMITMENTS

As of December 31, 2006, the City had contractual commitments as follows:

Project	Project Authorization	Expended to Date	Outstanding Commitments
Park improvements	\$ 19,966	\$ 10,586	\$ 9,380

NOTE 17 – CONTINGENCIES

For the year ended December 31, 2006, the City received assistance from various state and federal agencies. There are certain requirements of a compliance nature that have to be met and programs are subject to audit by the grantor agency. Any disallowed claims could be liabilities of the general fund or other applicable funds. In the opinion of management, any claims that might arise would not have a material effect on the City's financial statements.

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



CITY OF PARMA HEIGHTS, OHIO  
 CUYAHOGA COUNTY, OHIO  
 NOTES TO THE BASIC FINANCIAL STATEMENTS  
 DECEMBER 31, 2006

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 2006 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, 2006 and 2005 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.

	<u>2006</u>	<u>2005</u>
Unpaid claims, beginning of year	\$ 102,097	\$ 109,097
Incurred claims	811,170	838,814
Claims payment	<u>(913,267)</u>	<u>(845,525)</u>
Unpaid claims, end of year	<u>\$ -</u>	<u>\$ 102,097</u>

NOTE 19- REFINANCING BANS

During the fiscal year ended December 31, 2006, the City issued various bond anticipation notes (BANs) for street construction and resurfacing. During the following fiscal year the City issued bonds to retire the BANs. Since all legal steps were taken to refinance the BANs into long-term debt, the BANs were not reported as notes payable in the governmental fund but were recorded as general long-term liabilities on the government-wide statement of net assets.

**This page intentionally left blank.**



# Mary Taylor, CPA

Auditor of State

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

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

To the City Council:

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the City of Parma Heights, Cuyahoga County, Ohio (the City) as of and for the years ended December 31, 2007 and December 31, 2006, which collectively comprise the Government's basic financial statements and have issued our report thereon dated January 16, 2009. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the Comptroller General of the United States' *Government Auditing Standards*.

### Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City's internal control over financial reporting as a basis for designing our audit procedures for expressing our opinions on the financial statements, but not to opine on the effectiveness of the City's internal control over financial reporting. Accordingly, we have not opined on the effectiveness of the City's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified a certain deficiency in internal control over financial reporting that we consider a significant deficiency.

A control deficiency exists when the design or operation of a control does not allow management or employees, in performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the City's ability to initiate, authorize, record, process, or report financial data reliably in accordance with its applicable accounting basis, such that there is more than a remote likelihood that the City's internal control will not prevent or detect a more-than-inconsequential financial statement misstatement.

We consider the following deficiency described in the accompanying schedule of findings to be a significant deficiency in internal control over financial reporting: 2007-004.

A material weakness is a significant deficiency, or combination of significant deficiencies resulting in more than a remote likelihood that the City's internal control will not prevent or detect a material financial statement misstatement.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and accordingly, would not necessarily disclose all significant deficiencies that are also material weaknesses. We believe the significant deficiency described above is not a material weakness.

We also noted certain internal control matters that we reported to the City's management in a separate letter dated January 16, 2009.

### **Compliance and Other Matters**

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

We also noted certain noncompliance or other matters not requiring inclusion in this report that we reported to the City's management in a separate letter dated January 16, 2009.

The City's responses to the findings identified in our audit are described in the accompanying schedule of findings. We did not audit the City's responses and, accordingly, we express no opinion on them.

We intend this report solely for the information and use of management and City Council. We intend it for no one other than these specified parties.



**Mary Taylor, CPA**  
Auditor of State

January 16, 2009

**CITY OF PARMA HEIGHTS  
CUYAHOGA COUNTY**

**SCHEDULE OF FINDINGS  
DECEMBER 31, 2007 AND DECEMBER 31, 2006**

<b>FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS</b>
--

**FINDING NUMBER 2007-001**

**Proper Encumbering – Material Noncompliance**

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

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

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

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

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

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

For 2007, 16 out of 34 transactions tested (47%) and for 2006, 13 out of 22 transactions tested (59%) were not certified by the fiscal officer at the time the commitment was incurred and there was no evidence the City followed the aforementioned exceptions. In addition, there were 10 transactions for which no purchase order was prepared. Failure to properly certify the availability of funds can result in overspending funds and negative cash fund balances.

**CITY OF PARMA HEIGHTS  
CUYAHOGA COUNTY**

**SCHEDULE OF FINDINGS  
DECEMBER 31, 2007 AND DECEMBER 31, 2006**

**FINDING NUMBER 2007-001 (Continued)**

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

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

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

**Official's Response:**

The City's purchasing procedures require that a purchase order number is obtained prior to purchases being made. The Finance Director's certification is made both on the departmental requisition form and on the computer generated purchase order. Due to a system peculiarity the computer assigns a date to the purchase order consistent with the batch printing date and not the requisition/Finance Director Certification Date; which results in the purchase order date being subsequent to the actual certification date. And in the case of confirming orders subsequent to the order date, the City began certifying with a "Then and Now" designation half way through 2007 to circumvent this timing issue.

**CITY OF PARMA HEIGHTS  
CUYAHOGA COUNTY**

**SCHEDULE OF FINDINGS  
DECEMBER 31, 2007 AND DECEMBER 31, 2006**

**FINDING NUMBER 2007-002**

**Expenditures Exceeding Appropriations – Material Noncompliance**

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

	<u>Appropriations</u>	<u>Expenditures Plus Encumbrances</u>	<u>Variance</u>
<b>At June 30, 2006</b>			
<i>General Fund</i>			
Economic Development Department			
Employee Benefits	7,125	15,215	(8,090)
Tree Program			
Employee Expenses	0	37	(37)
Employee Benefits	0	2,572	(2,572)
Administrative Support - Leisure Time			
Other Expenses	2,000	8,428	(6,428)
Public Health and Welfare			
Other Expenses	55,000	56,693	(1,693)
<i>Special Revenue Fund</i>			
Safety Equipment Facilities/Equipment			
Safety Equipment	0	30,193	(30,193)
<i>Capital Project Fund</i>			
Capital Projects Fund			
Police Department Equipment	20,250	20,295	(45)

**CITY OF PARMA HEIGHTS  
CUYAHOGA COUNTY**

**SCHEDULE OF FINDINGS  
DECEMBER 31, 2007 AND DECEMBER 31, 2006**

**FINDING NUMBER 2007-002 (Continued)**

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

	<u>Appropriations</u>	<u>Expenditures Plus Encumbrances</u>	<u>Variance</u>
<b>At June 30, 2007</b>			
<i>General Fund</i>			
Administrative Support			
Transfers Out	30,000	550,000	(520,000)
Miscellaneous, Contingent	262,234	320,531	(58,297)
 Auxiliary Police			
Other Expenses	2,500	7,088	(4,588)
 Building and Administrative Support			
Other Expenses	65,199	67,875	(2,676)
 Tree Program			
Employee Expenses	0	51	(51)
Employee Benefits	0	3,522	(3,522)
 Administrative Support - Leisure Time			
Other Expenses	1,800	6,910	(5,110)
 Service Department			
Tree Planting/Maintenance	3,500	4,716	(1,216)
 <i>Special Revenue Funds</i>			
Street Maintenance and Repair Fund			
Snow/Ice Removal-Material	60,000	72,453	(12,453)
Contract Repairs/Equipment	0	5,320	(5,320)
 Motor Vehicle Permissive Levy Fund			
Materials/Supplies	0	16,997	(16,997)
 CDBG			
Fire Station Improvement/Ambulance	152,000	152,237	(237)

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



**CITY OF PARMA HEIGHTS  
CUYAHOGA COUNTY**

**SCHEDULE OF FINDINGS  
DECEMBER 31, 2007 AND DECEMBER 31, 2006**

**FINDING NUMBER 2007-002 (Continued)**

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

**Official's Response:**

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

**FINDING NUMBER 2007-003**

**Transfers/Advances – Material Noncompliance**

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

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

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

During 2006, the Deposit Trust fund advanced \$206,900 to the General Fund. This advance was not made to eliminate an interfund balance.

Therefore, in accordance with the foregoing facts, we hereby issue a finding for adjustment against the City's General Fund, in favor of the City's Deposit Trust Fund in the amount of \$206,900.

**Official's Response:**

The \$206,900 will be returned during the 2009 budget year.

**CITY OF PARMA HEIGHTS  
CUYAHOGA COUNTY**

**SCHEDULE OF FINDINGS  
DECEMBER 31, 2007 AND DECEMBER 31, 2006**

**FINDING NUMBER 2007-004**

**Cassidy Theater (Cultural Center) Bank Reconciliations – Significant Deficiency**

Management is responsible for implementing and maintaining a system of controls designed to enable management to determine the accuracy of financial transactions of the City. Monitoring controls should be comprised of regular management and supervisory activities established to oversee whether management's objectives are being achieved. Effective monitoring controls should assist management in assessing the quality of internal control performance over time. This process involves assessing the design and operation of controls on a timely basis and taking necessary corrective actions. Monitoring controls also should assist management in identifying unexpected results and/or possible misstatements.

During our testing of monitoring controls at the Cassidy Theater (Cultural Center), we noted the Cultural Center's bank account was not being reconciled, on a monthly basis, by personnel in the Cultural Center. The bank account was established for the primary purpose of handling the deposits of theater ticket sales. Cultural Center employees do not have access to checks. Generally, the only expenditures/charges that are involved with this account are for transfers to the City's general checking account, initiated by the Finance Director via wire communication and bank service charges which appear on the bank statements. The City's Finance Director prepared a spreadsheet which identified a \$13,039 and \$2,585 variance for fiscal years 2006 and 2007, respectively, between what was reflected on the Cultural Center's bank statements and what was posted to the City's accounting records, prior to the adjustment made by the Finance Director to correct the bank over book difference. These amounts were adjusted in the fiscal year subsequent to the variance.

We additionally noted the Recreation Clerk did not maintain evidentiary support that monthly bank reconciliations were being performed for the recreation bank account.

By not preparing monthly bank reconciliations, management's loses a key monitoring control allowing them to identify unexpected results and/or possible misstatements.

We recommend bank accounts be reconciled on a monthly basis. The one performing the bank reconciliation should provide evidence (i.e. signature on the bank statement) that it was performed. Also the Finance Department should monitor these departments to ensure monthly bank reconciliations are being performed.

**Official's Response:**

Procedures have been reformed to ensure monthly bank reconciliations of the General Recreation Account moving into 2008. The Cultural Center ceased operation as a City operated entity as of January 1, 2008 and began operation as a private entity, operating in the City's facility on a leased space basis.

**CITY OF PARMA HEIGHTS  
CUYAHOGA COUNTY**

**SCHEDULE OF PRIOR AUDIT FINDINGS  
DECEMBER 31, 2007 AND DECEMBER 31, 2006**

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; <i><b>Explain</b></i>
2005-001	Ohio Rev. Code Section 5705.41(D)(1) – Proper encumbering	No	Reissued as 2007-001
2005-002	Ohio Rev. Code Sections 5705.14, 5705.15, and 5705.16 – Illegal transfers	No	Reissued as 2007-003
2005-003	Ohio Rev. Code Section 9.38 – Not depositing timely	No	Reissued in Management Letter
2005-004	Ohio Rev. Code Section 5705.41(B) – Expenditures plus encumbrances exceeding appropriations	No	Reissued as 2007-002
2005-005	Ohio Rev. Code Section 5705.13(C) – Modifying the purpose of a fund.	Yes	Fully Corrected
2005-006	Finding for recovery repaid under audit for Cassidy Theater	Yes	Fully Corrected
2005-007	Various control weaknesses for the Cassidy Theater	No	Reissued as 2007-004





Mary Taylor, CPA  
Auditor of State

CITY OF PARMA HEIGHTS

CUYAHOGA COUNTY

**CLERK'S CERTIFICATION**

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

*Susan Babbitt*

CLERK OF THE BUREAU

CERTIFIED  
APRIL 16, 2009