



Mary Taylor, CPA
Auditor of State

**CITY OF GARFIELD HEIGHTS
CUYAHOGA COUNTY**

TABLE OF CONTENTS

| TITLE | PAGE |
|---|-------------|
| Independent Accountants' Report | 1 |
| Management's Discussion and Analysis | 3 |
| Basic Financial Statements | |
| Government-wide Financial Statements: | |
| Statement of Net Assets | 13 |
| Statement of Activities | 14 |
| Fund Financial Statements: | |
| Balance Sheet - Governmental Funds | 15 |
| Statement of Revenues, Expenditures and Changes in Fund Balances - Governmental Funds | 17 |
| Statement of Revenues, Expenditures, and Changes in Fund Balances - Budget (Non-GAAP Basis) and Actual General Fund | 19 |
| Statement of Fiduciary Net Assets – Agency Funds | 20 |
| Notes to the Basic Financial Statements | 21 |
| Independent Accountants' Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Required by <i>Government Auditing Standards</i> | 53 |
| Schedule of Findings | 55 |
| Schedule of Prior Audit Findings | 63 |

This page is intentionally left blank.



Mary Taylor, CPA

Auditor of State

INDEPENDENT ACCOUNTANTS' REPORT

City of Garfield Heights
Cuyahoga County
5407 Turney Road
Garfield Heights, Ohio 44125

To the Members of City Council:

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the City of Garfield Heights, Cuyahoga County, Ohio, (the City) as of and for the year ended December 31, 2005, 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 Garfield Heights, Cuyahoga County, Ohio, as of December 31, 2005, and the respective changes in financial position, thereof and the budgetary comparison for the General Fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As described in Note 18 to the financial statements, the City experienced financial difficulties at December 31, 2005. The difficulties have resulted in deficit fund balances in the General Fund, and other funds. Management's corrective action plan is described in Note 18 to the financial statements. As described in Note 3B to the financial statements, the City restated the cash fund balance of the Various Improvement Fund, at January 1, 2005.

In accordance with *Government Auditing Standards*, we have also issued our report dated February 28, 2007, 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

February 28, 2007

City of Garfield Heights, Ohio
Management's Discussion and Analysis
For the Year Ended December 31, 2005
Unaudited

This Discussion and Analysis of The City of Garfield Heights' financial performance provides an overall review of the City's financial activities for the year ended December 31, 2005. 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 2005 were as follows:

- Charges for Services increased by \$483,048 or 13.37 percent over 2004.
- Total Capital Assets increased by \$1,194,290 or 3.08 percent over 2004.
- Total Program Revenues decreased by \$179,696 while General Revenues increased \$437,743 thus creating an overall increase in Total Revenues of \$258,047.
- The total deficit fund balance for all funds under modified accrual accounting increased to (\$2,421,448) in 2005 from (\$1,627,895) in 2004.

Using this Annual Financial Report

This annual report consists of a series of financial statements and notes to those statements. These statements are organized so the reader can understand the City of Garfield Heights as a financial whole or as an entire operating entity. The statements then proceed to provide an increasingly detailed look at specific financial conditions.

The Statement of Net Assets and Statement of Activities provide information about the activities of the whole City, presenting both an aggregate view of the City's finances and a long-term view of those activities. 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 other non-major funds presented in total in one column.

Reporting the City of Garfield Heights as a Whole

Statement of Net Assets and the Statement of Activities

While this document contains information about the funds used by the City to provide services to our citizens, the view of the City as a whole looks at all financial transactions and asks the question, "How did we do financially during 2005?" The Statement of Net Assets and the Statement of Activities answer this question. These statements include all assets and liabilities using the accrual basis of accounting similar to the accounting used by the private sector companies. This basis of 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 the changes in those assets. This change in assets is important because it tells the reader whether, for the City as a whole, the financial position of the City 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 City capital assets will also need to be evaluated.

In the Statement of Net Assets and the Statement of Activities, all of the City's activities are reported as Governmental Activities, which include all of the City's services including police, fire, administration and all

City of Garfield Heights, Ohio
Management's Discussion and Analysis
For the Year Ended December 31, 2005
Unaudited

other departments. The City of Garfield Heights does not operate any Business-Type Activities and has no Component Units.

Reporting the City of Garfield Heights' Most Significant Funds

Fund Financial Statements

The analysis of the City's major funds begins on page 7. Fund financial reports provide detailed information about the City's major funds. Based on restrictions on the use of monies, the City has established many funds, which account for the multitude of services provided to the City's residents. However, these fund financial statements focus on the City's most significant funds. In the case of the City of Garfield Heights, the City's major funds are the General, Bond Retirement debt service and Various Improvement capital projects funds.

Governmental Funds. All of the City's activities are reported in the governmental funds, which focus on how money flows into and out of those funds and the balances left at year-end available for spending in future periods. These funds are reported using an accounting method called modified accrual accounting, which measures cash and all other financial assets that can readily be converted to cash. The governmental fund statements provide a detailed short-term view of the City's general government operations and the basic services it provides. Governmental fund information helps you determine whether there are more or fewer financial resources that can be spent in the near future on services provided to the City's 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.

The City of Garfield Heights as a Whole

Recall that the statement of net assets looks at the City as a whole. Table 1 provides a summary of the City's net assets for 2005 compared to 2004.

(Table 1)
Net Assets

| | Governmental Activities | | |
|-------------------------------|-------------------------|--------------|-------------|
| | 2005 | 2004 | Change |
| Assets | | | |
| Current and Other Assets | \$21,598,881 | \$19,974,707 | \$1,624,174 |
| Capital Assets, Net | 39,956,151 | 38,761,861 | 1,194,290 |
| <i>Total Assets</i> | 61,555,032 | 58,736,568 | 2,818,464 |
| Liabilities | | | |
| Current and Other Liabilities | 14,698,132 | 13,296,616 | 1,401,516 |
| Long-Term Liabilities: | | | |
| Due Within One Year | 1,776,647 | 1,487,309 | 289,338 |
| Due in More than One Year | 38,498,651 | 35,130,727 | 3,367,924 |
| <i>Total Liabilities</i> | \$54,973,430 | \$49,914,652 | \$5,058,778 |

City of Garfield Heights, Ohio
Management's Discussion and Analysis
For the Year Ended December 31, 2005
Unaudited

(Table 1)
 Net Assets (continued)

| | Governmental Activities | | |
|---|---------------------------|---------------------------|-----------------------------|
| | 2005 | 2004 | Change |
| Net Assets | | | |
| Invested in Capital Assets, Net of Related Debt | \$15,124,151 | \$17,267,861 | (\$2,143,710) |
| Restricted: | | | |
| Capital Projects | 3,223,746 | 1,550,617 | 1,673,129 |
| Debt Service | 1,925,089 | 1,768,572 | 156,517 |
| Street Lighting | 127,248 | 119,326 | 7,922 |
| Courts | 170,898 | 129,141 | 41,757 |
| Other Purposes | 872,844 | 639,749 | 233,095 |
| Unrestricted | <u>(14,862,374)</u> | <u>(12,653,350)</u> | <u>(2,209,024)</u> |
| <i>Total Net Assets</i> | <u><u>\$6,581,602</u></u> | <u><u>\$8,821,916</u></u> | <u><u>(\$2,240,314)</u></u> |

Current and other assets increased by \$1,624,174 and capital assets (net of depreciation) increased by \$1,194,290 thus creating an increase in total assets of \$2,818,464. Intergovernmental receivables increased by \$493,985 between 2004 and 2005 partially due to an increase in grant monies.

Current and other liabilities increased by \$1,401,516 while long term liabilities due in one year and more than one year increased by \$289,338 and \$3,367,924 respectively. The City's investment in capital assets (net of related debt) decreased by \$2,143,710 from 2004.

The City's governmental activities net assets decreased by \$2,240,314, while unrestricted net assets decreased by \$2,209,024. Unrestricted assets are not enough to pay liabilities. This has been identified by the presentation of the financial statements. Management is discussing the long-term effect for the City.

The City of Garfield Heights has been attempting to stabilize certain long-term liabilities such as compensated absences. In 2002, the City successfully negotiated various forms of accumulated vacation and sick leave buy backs. To this extent, the employees' may elect to "cash-in" a certain number of hours of these accrued leave balances in lieu of banking them for future use. This program is a win-win situation for the employees and the City. The employee wins by having the option of taking these dollars and investing in the Deferred Compensation Program, which offers many mutual fund options as well as fixed income programs, if desired by the employee. The City wins since it is buying back hours of accumulated sick leave/vacation accruals at today's hourly rate of pay instead of the employee's hourly rate at some point in the future.

City of Garfield Heights, Ohio
Management's Discussion and Analysis
For the Year Ended December 31, 2005
Unaudited

Table 2 shows the changes in net assets for the year ended December 31, 2005, as compared to the changes in net assets for 2004.

Table 2
Changes in Net Assets

| | <u>Governmental Activities</u> | |
|--|--------------------------------|---------------------------|
| | <u>2005</u> | <u>2004</u> |
| Revenues | | |
| <i>Program Revenues</i> | | |
| Charges for Services | \$4,096,159 | \$3,613,111 |
| Operating Grants and Contributions | 1,451,669 | 1,338,163 |
| Capital Grants and Contributions | 1,445,724 | 2,221,974 |
| <i>Total Program Revenues</i> | <u>6,993,552</u> | <u>7,173,248</u> |
| <i>General Revenues</i> | | |
| Property Taxes | 9,237,445 | 8,513,602 |
| Municipal Income Taxes | 8,672,094 | 9,028,745 |
| Grants and Entitlements not Restricted to Specific Programs | 3,694,159 | 3,428,784 |
| Investment Earnings | 65,274 | 19,077 |
| Franchise Fees | 241,822 | 231,369 |
| Miscellaneous | 485,929 | 726,080 |
| Gain on Sale of Capital Assets | 501 | 11,824 |
| <i>Total General Revenues</i> | <u>22,397,224</u> | <u>21,959,481</u> |
| <i>Total Revenues</i> | <u>29,390,776</u> | <u>29,132,729</u> |
| Program Expenses | | |
| General Government | 9,268,069 | 8,316,636 |
| Security of Persons and Property | 11,873,674 | 11,085,253 |
| Public Health Services | 719,026 | 669,840 |
| Transportation | 4,379,460 | 2,783,497 |
| Community Development | 181,847 | 184,352 |
| Basic Utility Services | 1,619,837 | 2,282,390 |
| Leisure Time Activities | 1,940,569 | 1,112,020 |
| Interest and Fiscal Charges | 1,648,608 | 1,192,376 |
| <i>Total Program Expenses</i> | <u>31,631,090</u> | <u>27,626,364</u> |
| <i>Increase (Decrease) in Net Assets</i> | (2,240,314) | 1,506,365 |
| Net Assets Beginning of Year | <u>8,821,916</u> | <u>7,315,551</u> |
| <i>Net Assets End of Year</i> | <u><u>\$6,581,602</u></u> | <u><u>\$8,821,916</u></u> |

City of Garfield Heights, Ohio
Management's Discussion and Analysis
For the Year Ended December 31, 2005
Unaudited

Program revenues decreased by \$179,696 and general revenues increased by \$437,743 thus resulting in an overall increase in total revenues of \$258,047. A highlight in the general revenue area was the \$723,843 increase in property tax revenues over 2004 figures. Total program expenses over this period increased by \$4,004,726. A major highlight in the program expense area was the reduction of \$662,553 in Basic Utility Services expenses. Increases in the General Government Program of \$951,433, in the Security of Persons and Property Program of \$788,421, in the Transportation Program of \$1,595,963, and Leisure Time Activities of \$828,549 offset the savings identified above. The net effect of these revenue increases and expense decreases was a decrease in net assets of \$2,240,314.

Governmental Activities

Several revenue sources fund our governmental activities. Under the accrual basis of accounting, the City income taxes accounted for \$8,672,094 or 29.51 percent of total revenues; property taxes accounted for \$9,237,445 or 31.43 percent of gross revenues; grants and entitlements accounted for \$3,694,159 or 12.57 percent of total revenues; and charges for services accounted for \$4,096,159 or 13.94 percent of total revenues. The income tax rate of 2.0 percent, with a 100 percent credit for payments made to other Cities, was approved by a vote of our citizens in 1982, which took effect in January of 1983.

Major expense activities, under the accrual basis of accounting, included: security of persons and property expenses which accounted for 37.54 percent of total program expenses; general government expenses which accounted for 29.30 percent; transportation which accounted for 13.85 percent; and leisure time activities which accounted for 6.14 percent. Overall, there was an increase in program expenses of \$4,004,726 from 2004 program expense totals. The City is committed to providing the basic services that our residents expect.

The City's Funds

Information about the City's major governmental funds begins on page 15. These funds are accounted for using the modified accrual basis of accounting. Review of these statements reveals that all government funds had total revenues of \$28,322,732 and total expenditures of \$33,744,754. The net effect for all government funds was a negative (deficit) fund balance of \$2,421,448, this deficit fund balance is an increase in the deficit fund balance that the City had at the end of 2004.

Garfield Heights has not been immune to the resulting economic conditions of our country brought on by the terrorist acts of 9-11, the effects of the recent war in the mid-east, and the economic slow down that has had a grip on this area of the country. A deeper analysis of these statements will show that the fund balance of the City's General fund, the City's main operational fund, has a deficit fund balance of \$2,404,599 at year end. There were many major factors that resulted in an increase in the negative fund balance. Some of these were: 1) a change in the personal property tax laws that resulted in lower collections; 2) a loss of inheritance tax revenue due to a change in State Law as to the size of an estate on which the tax applies; and 3) an increase in the general government and security of persons and property programs. These factors combined to help create an additional loss of fund balance of \$977,762. As will be discussed later in this analysis, private development has continued in the City of Garfield Heights throughout this slowdown. It is through this new development that the City hopes to be able to stabilize the level of its income tax collections versus having a declining income tax base.

City of Garfield Heights, Ohio
Management's Discussion and Analysis
For the Year Ended December 31, 2005
Unaudited

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.

During the course of 2005, the City did not amend its general fund budget. All recommendations for any budget change come from the City Finance Director to the Finance Committee of Council for review before going to the whole Council for ordinance enactment on the change. The City does not allow budget changes that modify line items within departments without Council approval. With the General fund supporting many of the major activities such as the police and fire departments, as well as most legislative and executive activities, the General fund is monitored closely for possible revenue shortfalls or over spending by individual departments.

For the General fund, original and final budgeted revenues were \$21,088,733 and \$21,046,723, respectively, and actual revenue collections were \$20,270,664. The major factors contributing to the decrease of actual revenues over the final budgeted amounts were decreases in revenues for the categories of charges for services, fines and forfeitures, intergovernmental revenues and other revenues. The City of Garfield Heights' ending balance in the General fund was \$1,395,363 below the final budgeted amount, thus resulting in a deficit fund balance of \$1,328,874. Should the general economic conditions of the area continue their downward spiral, the City administration and elected officials will have to make some decisive decisions in regards to either some stricter controls placed on expenditures, increases in locally generated revenues, or some mix of the two, in order to avoid further economic distress to the City of Garfield Heights.

Capital Assets and General Long-Term Obligations

Capital Assets

Table 3
 Capital Assets at December 31, 2005
 (Net of Depreciation)

| | Governmental Activities | |
|-----------------------------------|-------------------------|--------------|
| | 2005 | 2004 |
| Land | \$1,504,320 | \$1,506,067 |
| Construction in Progress | 2,395,000 | 0 |
| Buildings | 11,557,738 | 11,905,917 |
| Improvements other than Buildings | 2,777,048 | 2,908,327 |
| Vehicles | 2,426,326 | 2,212,694 |
| Machinery and Equipment | 1,195,088 | 1,421,575 |
| Furniture and Fixtures | 235,159 | 238,683 |
| Infrastructure | 17,865,472 | 18,568,598 |
| Total | \$39,956,151 | \$38,761,861 |

City of Garfield Heights, Ohio
Management's Discussion and Analysis
For the Year Ended December 31, 2005
Unaudited

The slight increase in vehicles was due to the purchase of some much needed equipment for the various departments of the City. As you can see, all other capital asset classifications, net of depreciation, declined in value except for construction in progress. This addition of construction in progress is due to the reconstruction of Transportation Blvd and Antenucci Blvd. in the I-480/Transportation Business District. Thus depreciation charges were the single most influential element to affect this area. See Note 10 for capital asset information.

Debt Obligations

At December 31, 2005 the City of Garfield Heights had \$30,132,000 in outstanding General Obligation Bonds and Special Assessment Bonds. The City's overall legal debt margin at December 31, 2005 was \$19,127,065. Table 4 indicates the total outstanding long-term obligations of the City.

Table 4
 Outstanding Notes and Long-Term Obligations at Year End

| | Governmental Activities | |
|--------------------------|-------------------------|---------------------|
| | 2005 | 2004 |
| General Obligation Bonds | \$28,892,466 | \$30,053,666 |
| Special Assessment Bonds | 1,239,534 | 1,340,334 |
| Notes | 4,000,000 | 0 |
| Police and Fire Loan | 670,035 | 681,293 |
| Capital Leases | 600,000 | 0 |
| Total | \$35,402,035 | \$32,075,293 |

During 2005 a new note issue, the Various Improvement Note 2005, was put in place to account for some major roadway improvements and other miscellaneous projects in the amount of \$4,000,000. One of the City's major funds is the bond retirement fund, which is specifically set up for the accumulation and payment of the City's annual principal and interest requirements of the general obligation and special assessment bonds identified above.

The police and fire loan shown in Table 4 above, in the amount of \$670,035 identifies the City's accrued liability incurred when the State of Ohio established the statewide pension system for police and firefighters in 1967. Actual cash demands, for principal and interest for this obligation, total \$40,094 annually through the year 2035. See Note 13 for detailed long-term debt information.

Current Financial Related Activities

As is the case with many governmental agencies, dated infrastructure can be a problem, however, over the past 18 years, the City has taken a proactive stance in regards to dated infrastructure and plans to continue this effort of improving infrastructure as the need arises. Annually the City's engineer inspects roadways and suggests the worst for repair. For the period 1985 to 2000, the City expended, on average, \$750,000 annually on various roadway-maintenance resurfacing projects. During 2001, the City's roadway maintenance program totaled \$960,198 and during 2003 the City invested approximately \$1,500,000 in roadway maintenance. During 2005 the City began, and will complete in 2006, the reconstruction of two major roads

City of Garfield Heights, Ohio
Management's Discussion and Analysis
For the Year Ended December 31, 2005
Unaudited

in the I-480/Transportation Business District, with an approximate value of \$2,150,000. Additionally, over the past ten years, the City has converted two of the last three septic sanitary tank areas to sanitary sewer service. This development has been accomplished through the use of Federal and State grant funding; the issuance of special assessment bond issues, payable over 20 years by the affected property owners; and the issuance of general obligation debt.

During this same time period, the City has renovated its Justice Center, which houses both the Police Department and the Garfield Heights Municipal Court System; has constructed a new Civic Center/Administration Building, which houses the Administrative Offices and our Senior Citizens Programs; a new Fire Station; and completed a new Service Garage Complex in 2001.

During the period 1996 through 2001, the City also purchased and paid cash for over two million dollars worth of vehicles and equipment. Some of the items included in these purchases have been: a new pumper truck and ambulance for the fire department; on average seven new police cruisers per year; three new 13-passenger buses for senior citizen programs; and a variety of pickup trucks, vans, salt trucks, low pro dump trucks and other road and non-road equipment for service and recreation departments. During 2002, the City added over a million dollars worth of new vehicles to the City's vehicle fleet with over \$525,000 being paid for in cash. With 2003 and 2004 being lean years, the City's investment in the vehicle area has been limited to maintaining the police cruiser rotation of 6-7 new cars a year. During 2005 the City leased to purchase vehicles totaling over \$600,000. New network computer systems for the City's police department, municipal court system and main administrative operations were also purchased throughout this time period.

The continuation and expansion of the City's aggressive economic development programs, instituted in the 1990's, is an integral part of the City's future plans and financial stability. To this extent, the City is concentrating on two major areas of commercial/industrial development, the Broadway Avenue/McCracken Road Development District and the I-480/Transportation Boulevard Development District. Both of these districts offer excellent access to the Interstate Highway System via I-480 access from Broadway Avenue and Transportation Boulevard, respectively. The residents of the City have been very receptive to this increased development within the City and have shown their acceptance through numerous rezoning issues placed before them throughout the 1990's. The two zoning districts added in the early 1990's to accomplish the City's economic development plans were U11-A: Office Parks and U11-B: Industrial Parks.

New development and expansion, under the zoning districts identified above, is continuing in the Broadway Ave./McCracken Road Development District. In the fall of 2000 another newly constructed facility was completed in this area and occupancy by the owner took place. During 2003, the City was in the process of amassing a three-acre plot of land through our Land Revitalization Program. This plot will be combined with another five-acre plot that is currently in the Land Program, to be offered by the City for future development. Another factor that the City expects to increase development in this district over the next five to ten years is the decision, during 2001 by the Norfolk/Southern Railroad to locate a new Intermodal Facility off Broadway Avenue in our sister City of Maple Heights. This facility is located about a mile and a half from the Garfield Heights border. Access to the Interstate Highway system from this location is via the Broadway Avenue entrance, which is in Garfield Heights. This facility was constructed through the summer of 2001 and was operational in late fall 2001. The City's projection of increased development in this area, due to the Intermodal Facility, has already started. Two companies have already constructed and occupied office/warehouse buildings in this area. Another contractor/investor has amassed a 20-acre block of land in this area for future development. In addition to this private investment in this area, the City has recently been granted both a State Issue II and a Community Development Block Grant for the reconstruction of the East 131st Street/Broadway Intersection and the addition of another traffic lane in Broadway Avenue from East 131st Street to the I-480 entrance ramp. This improvement will help to spur the development in the Broadway

City of Garfield Heights, Ohio
Management's Discussion and Analysis
For the Year Ended December 31, 2005
Unaudited

Corridor section of the development district by improving the traffic patterns and access to the Interstate Highway System. The applications for this funding were initiated due to a County Planning Commission analysis of the industrial impact of the facility and an engineering analysis of the traffic patterns that would result from the expected development in this area.

New development and expansion is also continuing in the I-480/Transportation Development District. Through the 1990's, the City's economic development programs were responsible for the development of five multi-million dollar Office/Flex Space facilities in this development district. Currently, the first of another two buildings in this area was recently completed and is approximately 85 percent occupied. The plans for the second building have been approved. Additionally, during the late 1990's, another local land owner/developer proposed a project on land that he had amassed. The early plans for this project included office, light industrial, hotel, and restaurant space. The project was estimated to cost over 1 billion dollars and was slated for construction over a 10-year period. This project would encompass the extension of Transportation Boulevard through to Rockside Road and would reclaim approximately 200 acres of brownfield landfill property in the process. Realizing what an impact such development would have on the future economic condition of the City of Garfield Heights, the City administration became staunch supporters of this proposed development. In April of 2001, the City and developer received the preliminary EPA approval for this project. On May 18, 2001 there was a ceremonial ground breaking and the developer set a start date of June 2001. During 2001 the developer completed the first phase of the landfill reclamation process by moving around 700,000 cubic yards of buried rubbish in the old landfill. During much of 2002 and 2003 the logistics of the future of this project were being finalized. Another development group also entered into the picture during this time, the Heritage Development Corporation announced its intention to purchase and develop a particular portion of this area. This added to the overall logistics problems inherent in planning any big construction project. In late 2003 (early 2004) it was announced that most of the logistical problems had been rectified and that Heritage had completed the purchase of the land that it needed for development. Currently, there are plans on the table for over 700,000 square-feet of retail in this area of Garfield Heights by the Heritage Development Corp.; and that the financing, through \$8.2 million from property taxes and personal property taxes, was nearing completion for the extension of Transportation Boulevard. This development, now named the "City View Center" project is to include a Wal-Mart, Circuit City, OfficeMax, Dick's Sports and other major department and home improvement stores. In March 2005, the Ohio EPA gave the construction of the City View Center its final approval and construction began in the spring of 2005. The developer has accelerated the construction schedule in order to open the facilities in the spring of 2006. At the time of this writing (spring-summer 2006) many of the new businesses in this development have already opened, including Dick's Sporting Goods; Giant Eagle; Starbucks; Circuit City; Joann Fabricks; Bed Bath and Beyond; etc, and the impact of the new business in the City is beginning to show through our income tax collections. There is also another new retail project in the works, as a spin off from the Heritage development. This development will be located on an adjacent 7 acre site to the Heritage development and will consist of retail and restaurants. This project is expected to open in the spring or early summer of 2006. It is estimated that when both projects are completed there will be nearly 1,000 new jobs added in the City. In addition to the development on this side of I-480, another development group is in the process of amassing land, through the buyout of residential housing in the last septic area of the City, on the opposite side of I-480. This group is proposing another retail, office, and restaurant development called the "Bridgeview Crossing" project. This project is estimated at \$45 million and should create around 800 new jobs.

City of Garfield Heights, Ohio
Management's Discussion and Analysis
For the Year Ended December 31, 2005
Unaudited

Contacting the City's Finance Department

This financial report is designed to provide the citizens, taxpayers, creditors and investors with a general overview of the City's finances and to show the City's accountability for the money it receives. If you have any questions about this report or need additional financial information, contact Richard W. Obert, CPA, City of Garfield Heights, Finance Director, 5407 Turney Road, Garfield Heights, Ohio 44125, 216-475-1100.

City of Garfield Heights, Ohio

Statement of Net Assets

December 31, 2005

| | <u>Governmental Activities</u> |
|---|------------------------------------|
| Assets | |
| Equity in Pooled Cash and Cash Equivalents | \$2,072,954 |
| Cash and Cash Equivalents With Fiscal Agents | 44,963 |
| Accounts Receivable | 306,533 |
| Accrued Interest Receivable | 6,601 |
| Intergovernmental Receivable | 4,894,457 |
| Prepaid Items | 30,277 |
| Materials and Supplies Inventory | 47,349 |
| Municipal Income Taxes Receivable | 1,897,846 |
| Property Taxes Receivable | 10,908,062 |
| Special Assessments Receivable | 1,239,534 |
| Deferred Charges | 150,305 |
| Nondepreciable Capital Assets | 3,899,320 |
| Depreciable Capital Assets, Net | 36,056,831 |
| | <hr/> |
| <i>Total Assets</i> | 61,555,032 |
| | <hr/> |
| Liabilities | |
| Accounts Payable | 335,383 |
| Contracts Payable | 1,581,941 |
| Accrued Wages | 380,259 |
| Retainage Payable | 98,681 |
| Intergovernmental Payable | 894,362 |
| Deferred Revenue | 10,944,084 |
| Accrued Interest Payable | 127,531 |
| Claims Payable | 335,891 |
| Long-Term Liabilities: | |
| Due Within One Year | 1,776,647 |
| Due In More Than One Year | 38,498,651 |
| | <hr/> |
| <i>Total Liabilities</i> | 54,973,430 |
| | <hr/> |
| Net Assets | |
| Invested in Capital Assets, Net of Related Debt | 15,124,151 |
| Restricted for: | |
| Capital Projects | 3,223,746 |
| Debt Service | 1,925,089 |
| Street Lighting | 127,248 |
| Courts | 170,898 |
| Other Purposes | 872,844 |
| Unrestricted (Deficit) | (14,862,374) |
| | <hr/> |
| <i>Total Net Assets</i> | \$6,581,602 |
| | <hr/> <hr/> |

See accompanying notes to the basic financial statements

City of Garfield Heights, Ohio
Statement of Activities
For the Year Ended December 31, 2005

| | Expenses | Program Revenues | | | Net (Expense) |
|----------------------------------|---------------------|----------------------|------------------------------------|----------------------------------|-----------------------------------|
| | | Charges for Services | Operating Grants and Contributions | Capital Grants and Contributions | Revenue and Changes in Net Assets |
| | | | | | Governmental Activities |
| Governmental Activities: | | | | | |
| General Government | \$9,268,069 | \$1,693,390 | \$0 | \$0 | (\$7,574,679) |
| Security of Persons and Property | 11,873,674 | 1,578,749 | 0 | 0 | (10,294,925) |
| Public Health Services | 719,026 | 45,101 | 0 | 0 | (673,925) |
| Transportation | 4,379,460 | 182,136 | 1,401,565 | 1,368,254 | (1,427,505) |
| Community Development | 181,847 | 23,782 | 50,104 | 0 | (107,961) |
| Basic Utility Services | 1,619,837 | 216,270 | 0 | 77,470 | (1,326,097) |
| Leisure Time Activities | 1,940,569 | 356,731 | 0 | 0 | (1,583,838) |
| Interest and Fiscal Charges | 1,648,608 | 0 | 0 | 0 | (1,648,608) |
| <i>Totals</i> | <u>\$31,631,090</u> | <u>\$4,096,159</u> | <u>\$1,451,669</u> | <u>\$1,445,724</u> | <u>(24,637,538)</u> |
| General Revenues | | | | | |
| Property Taxes Levied for: | | | | | |
| | | | | | 6,689,686 |
| | | | | | 825,201 |
| | | | | | 1,288,242 |
| | | | | | 434,316 |
| Municipal Income Tax Levied for: | | | | | |
| | | | | | 6,504,070 |
| | | | | | 1,040,652 |
| | | | | | 607,046 |
| | | | | | 520,326 |
| Grants and Entitlements not | | | | | |
| | | | | | 3,694,159 |
| | | | | | 65,274 |
| | | | | | 241,822 |
| | | | | | 485,929 |
| | | | | | 501 |
| | | | | | <u>22,397,224</u> |
| | | | | | (2,240,314) |
| | | | | | <u>8,821,916</u> |
| | | | | | <u>\$6,581,602</u> |

See accompanying notes to the basic financial statements

City of Garfield Heights, Ohio

Balance Sheet

Governmental Funds

December 31, 2005

| | General | Bond Retirement | Various Improvement | Other Governmental Funds | Total Governmental Funds |
|---|---------------------|--------------------|------------------------|--------------------------------|--------------------------------|
| Assets | | | | | |
| Equity in Pooled Cash and Cash Equivalents | \$0 | \$315,058 | \$1,006,451 | \$751,445 | \$2,072,954 |
| Cash and Cash Equivalents With Fiscal Agents | 0 | 0 | 44,963 | 0 | 44,963 |
| Receivables: | | | | | |
| Municipal Income Taxes | 1,423,384 | 132,849 | 0 | 341,613 | 1,897,846 |
| Property Taxes | 7,700,395 | 1,763,219 | 0 | 1,444,448 | 10,908,062 |
| Accounts | 224,724 | 0 | 0 | 81,809 | 306,533 |
| Intergovernmental | 1,621,381 | 83,378 | 2,178,643 | 1,011,055 | 4,894,457 |
| Special Assessments | 0 | 1,239,534 | 0 | 0 | 1,239,534 |
| Accrued Interest | 0 | 0 | 6,601 | 0 | 6,601 |
| Interfund Receivable | 0 | 0 | 1,444,398 | 0 | 1,444,398 |
| Prepaid Items | 29,576 | 0 | 0 | 701 | 30,277 |
| Materials and Supplies Inventory | 21,609 | 0 | 0 | 25,740 | 47,349 |
| <i>Total Assets</i> | <u>\$11,021,069</u> | <u>\$3,534,038</u> | <u>\$4,681,056</u> | <u>\$3,656,811</u> | <u>\$22,892,974</u> |
| Liabilities | | | | | |
| Accounts Payable | \$224,730 | \$0 | \$0 | \$110,653 | \$335,383 |
| Contracts Payable | 384,686 | 0 | 1,009,639 | 187,616 | 1,581,941 |
| Accrued Wages | 320,642 | 0 | 0 | 59,617 | 380,259 |
| Retainage Payable | 0 | 0 | 98,681 | 0 | 98,681 |
| Intergovernmental Payable | 403,976 | 0 | 0 | 490,386 | 894,362 |
| Interfund Payable | 600,112 | 0 | 0 | 844,286 | 1,444,398 |
| Deferred Revenue | 11,216,652 | 3,213,591 | 2,178,643 | 3,634,621 | 20,243,507 |
| Claims Payable | 274,870 | 0 | 0 | 61,021 | 335,891 |
| <i>Total Liabilities</i> | <u>13,425,668</u> | <u>3,213,591</u> | <u>3,286,963</u> | <u>5,388,200</u> | <u>25,314,422</u> |
| Fund Balances | | | | | |
| Reserved for Encumbrances | 140,790 | 0 | 0 | 66,032 | 206,822 |
| Unreserved, Undesignated, Reported in: | | | | | |
| General Fund (Deficit) | (2,545,389) | 0 | 0 | 0 | (2,545,389) |
| Special Revenue Funds (Deficit) | 0 | 0 | 0 | (1,257,540) | (1,257,540) |
| Debt Service Funds | 0 | 320,447 | 0 | 0 | 320,447 |
| Capital Projects Funds (Deficit) | 0 | 0 | 1,394,093 | (539,881) | 854,212 |
| <i>Total Fund Balances (Deficit)</i> | <u>(2,404,599)</u> | <u>320,447</u> | <u>1,394,093</u> | <u>(1,731,389)</u> | <u>(2,421,448)</u> |
| <i>Total Liabilities and Fund Balances</i> | <u>\$11,021,069</u> | <u>\$3,534,038</u> | <u>\$4,681,056</u> | <u>\$3,656,811</u> | <u>\$22,892,974</u> |

See accompanying notes to the basic financial statements

City of Garfield Heights, Ohio
*Reconciliation of Total Governmental Fund Balances to
 Net Assets of Governmental Activities
 December 31, 2005*

Total Governmental Fund Balances (\$2,421,448)

*Amounts 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 are not reported in the funds. 39,956,151

Other long-term assets are not available to pay for current-
 period expenditures and therefore are deferred in the funds:

| | |
|------------------------|-----------|
| Property Taxes | 1,713,978 |
| Municipal Income Taxes | 1,820,858 |
| Intergovernmental | 4,525,053 |
| Special Assessments | 1,239,534 |

Total 9,299,423

In the statement of activities, bond issuance costs are amortized
 over the term of the bonds, whereas in governmental funds a bond
 issuance expenditure is reported when bonds are issued. 150,305

In the statement of activities, interest is accrued on outstanding
 bonds, whereas in governmental funds, an interest
 expenditure is reported when due. (127,531)

Long-term liabilities, including bonds payable are not due and
 payable in the current period and therefore are not reported in
 the funds:

| | |
|---------------------------|--------------|
| General Obligation Bonds | (28,892,466) |
| Special Assessment Bonds | (1,239,534) |
| Capital Leases | (600,000) |
| Compensated Absences | (4,630,228) |
| General Obligation Notes | (4,000,000) |
| Police and Fire Liability | (670,035) |
| Claims | (243,035) |

Total (40,275,298)

Net Assets of Governmental Activities \$6,581,602

See accompanying notes to the basic financial statements

City of Garfield Heights, Ohio
Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds
For the Year Ended December 31, 2005

| | General | Bond Retirement | Various Improvement | Other Governmental Funds | Total Governmental Funds |
|--|-----------------------------|-------------------------|---------------------------|--------------------------------|--------------------------------|
| Revenues | | | | | |
| Property and Other Taxes | \$6,388,225 | \$1,179,165 | \$0 | \$1,204,078 | \$8,771,468 |
| Municipal Income Taxes | 6,343,181 | 592,029 | 0 | 1,522,362 | 8,457,572 |
| Special Assessments | 0 | 100,800 | 0 | 0 | 100,800 |
| Charges for Services | 2,045,055 | 0 | 0 | 266,364 | 2,311,419 |
| Fees, Licenses and Permits | 463,119 | 0 | 0 | 308,569 | 771,688 |
| Fines and Forfeitures | 519,943 | 0 | 0 | 463,728 | 983,671 |
| Intergovernmental | 3,246,256 | 279,084 | 470,621 | 2,106,698 | 6,102,659 |
| Interest | 37,882 | 0 | 26,601 | 791 | 65,274 |
| Rentals | 29,381 | 0 | 0 | 0 | 29,381 |
| Franchise Fees | 241,822 | 0 | 0 | 0 | 241,822 |
| Other | 336,214 | 29,001 | 0 | 121,763 | 486,978 |
| <i>Total Revenues</i> | <u>19,651,078</u> | <u>2,180,079</u> | <u>497,222</u> | <u>5,994,353</u> | <u>28,322,732</u> |
| Expenditures | | | | | |
| Current: | | | | | |
| General Government | 8,209,511 | 39,999 | 0 | 205,015 | 8,454,525 |
| Security of Persons and Property | 9,815,700 | 0 | 0 | 1,454,748 | 11,270,448 |
| Public Health Services | 191,991 | 0 | 0 | 476,070 | 668,061 |
| Transportation | 0 | 0 | 0 | 2,018,838 | 2,018,838 |
| Community Development | 154,920 | 0 | 0 | 27,295 | 182,215 |
| Basic Utility Services | 1,269,467 | 0 | 0 | 559,869 | 1,829,336 |
| Leisure Time Activities | 0 | 0 | 0 | 1,221,369 | 1,221,369 |
| Capital Outlay | 0 | 0 | 3,802,028 | 1,427,400 | 5,229,428 |
| Debt Service: | | | | | |
| Principal Retirement | 0 | 1,262,000 | 0 | 11,258 | 1,273,258 |
| Interest and Fiscal Charges | 0 | 1,568,439 | 0 | 28,837 | 1,597,276 |
| <i>Total Expenditures</i> | <u>19,641,589</u> | <u>2,870,438</u> | <u>3,802,028</u> | <u>7,430,699</u> | <u>33,744,754</u> |
| <i>Excess of Revenues Over (Under) Expenditures</i> | <u>9,489</u> | <u>(690,359)</u> | <u>(3,304,806)</u> | <u>(1,436,346)</u> | <u>(5,422,022)</u> |
| Other Financing Sources (Uses) | | | | | |
| Sale of Capital Assets | 28,469 | 0 | 0 | 0 | 28,469 |
| Inception of Capital Lease | 427,980 | 0 | 0 | 172,020 | 600,000 |
| Bond Anticipation Notes Issued | 0 | 0 | 4,000,000 | 0 | 4,000,000 |
| Transfers In | 0 | 865,100 | 0 | 1,518,051 | 2,383,151 |
| Transfers Out | (1,443,700) | 0 | (485,100) | (454,351) | (2,383,151) |
| <i>Total Other Financing Sources (Uses)</i> | <u>(987,251)</u> | <u>865,100</u> | <u>3,514,900</u> | <u>1,235,720</u> | <u>4,628,469</u> |
| <i>Net Change in Fund Balances</i> | <u>(977,762)</u> | <u>174,741</u> | <u>210,094</u> | <u>(200,626)</u> | <u>(793,553)</u> |
| <i>Fund Balances (Deficit) Beginning of Year - Restated (See Note 3)</i> | <u>(1,426,837)</u> | <u>145,706</u> | <u>1,183,999</u> | <u>(1,530,763)</u> | <u>(1,627,895)</u> |
| <i>Fund Balances (Deficit) End of Year</i> | <u><u>(\$2,404,599)</u></u> | <u><u>\$320,447</u></u> | <u><u>\$1,394,093</u></u> | <u><u>(\$1,731,389)</u></u> | <u><u>(\$2,421,448)</u></u> |

See accompanying notes to the basic financial statements

City of Garfield Heights, 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, 2005*

Net Change in Fund Balances - Total Governmental Funds (\$793,553)

*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 estimated useful lives as depreciation expense. This is the amount by which capital outlays exceeded depreciation in the current period.

| | | |
|----------------|-------------|-----------|
| Capital Outlay | 3,424,080 | |
| Depreciation | (2,185,113) | |
| | | |
| Total | | 1,238,967 |

Governmental funds only report the disposal of capital assets to the extent proceeds are received from the sale. In the statement of activities, a gain or loss is reported for each disposal. (44,677)

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

| | | |
|------------------------|-----------|-----------|
| Property Taxes | 465,977 | |
| Municipal Income Taxes | 214,522 | |
| Intergovernmental | 488,893 | |
| Special Assessments | (100,800) | |
| Miscellaneous | (1,049) | |
| | | |
| Total | | 1,067,543 |

Repayment of long-term obligations is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets. 1,273,258

Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds.

| | | |
|--------------------------------|----------|----------|
| Accrued Interest on Bonds | (43,421) | |
| Amortization on Issuance Costs | (7,911) | |
| | | |
| Total | | (51,332) |

Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds.

| | | |
|----------------------|-----------|-----------|
| Compensated Absences | (284,129) | |
| Claims | (46,391) | |
| | | |
| Total | | (330,520) |

Other financing sources in the governmental funds increase long-term liabilities in the statement of net assets.

| | | |
|--------------------------|-------------|-------------|
| General Obligation Notes | (4,000,000) | |
| Capital Leases | (600,000) | |
| | | |
| Total | | (4,600,000) |

Change in Net Assets of Governmental Activities (\$2,240,314)

See accompanying notes to the basic financial statements

City of Garfield Heights, Ohio
Statement of Revenues, Expenditures and Changes
In Fund Balance - Budget (Non-GAAP Basis) and Actual
General Fund
For the Year Ended December 31, 2005

| | Budgeted Amounts | | Actual | Variance with Final Budget |
|---|------------------|-------------|---------------|-------------------------------|
| | Original | Final | | Positive (Negative) |
| Revenues | | | | |
| Property and Other Taxes | \$6,401,863 | \$6,401,863 | \$6,388,225 | (\$13,638) |
| Municipal Income Taxes | 6,553,500 | 6,553,500 | 6,956,973 | 403,473 |
| Charges for Services | 2,264,528 | 2,264,528 | 2,070,634 | (193,894) |
| Fees, Licenses and Permits | 269,960 | 269,960 | 458,860 | 188,900 |
| Fines and Forfeitures | 582,775 | 582,775 | 514,344 | (68,431) |
| Intergovernmental | 3,293,206 | 3,293,206 | 3,247,879 | (45,327) |
| Interest | 37,000 | 37,000 | 37,882 | 882 |
| Rentals | 26,000 | 26,000 | 29,381 | 3,381 |
| Franchise Fees | 232,000 | 232,000 | 241,822 | 9,822 |
| Other | 1,427,901 | 1,385,891 | 324,664 | (1,061,227) |
| <i>Total Revenues</i> | 21,088,733 | 21,046,723 | 20,270,664 | (776,059) |
| Expenditures | | | | |
| Current: | | | | |
| General Government | 7,401,859 | 7,401,859 | 8,066,517 | (664,658) |
| Security of Persons and Property | 9,612,116 | 9,612,116 | 9,799,214 | (187,098) |
| Public Health Services | 186,766 | 186,766 | 177,327 | 9,439 |
| Community Development | 140,694 | 140,694 | 151,732 | (11,038) |
| Basic Utility Services | 1,417,824 | 1,417,824 | 1,367,439 | 50,385 |
| <i>Total Expenditures</i> | 18,759,259 | 18,759,259 | 19,562,229 | (802,970) |
| <i>Excess of Revenues Over Expenditures</i> | 2,329,474 | 2,287,464 | 708,435 | (1,579,029) |
| Other Financing Sources (Uses) | | | | |
| Sale of Capital Assets | 28,469 | 28,469 | 28,469 | 0 |
| Transfers Out | (1,627,366) | (1,627,366) | (1,443,700) | 183,666 |
| <i>Total Other Financing Sources (Uses)</i> | (1,598,897) | (1,598,897) | (1,415,231) | 183,666 |
| <i>Net Change in Fund Balance</i> | 730,577 | 688,567 | (706,796) | (1,395,363) |
| <i>Fund Deficit Beginning of Year</i> | (803,199) | (803,199) | (803,199) | 0 |
| Prior Year Encumbrances Appropriated | 181,121 | 181,121 | 181,121 | 0 |
| <i>Fund Balance (Deficit) End of Year</i> | \$108,499 | \$66,489 | (\$1,328,874) | (\$1,395,363) |

See accompanying notes to the basic financial statements

City of Garfield Heights, Ohio
Statement of Fiduciary Assets and Liabilities
Agency Funds
December 31, 2005

| | <u>Agency</u> |
|--|--------------------|
| Assets | |
| Cash and Cash Equivalents in Segregated Accounts | <u>\$1,214,368</u> |
| Liabilities | |
| Contracts Payable | \$334,231 |
| Due to Others | <u>880,137</u> |
| <i>Total Liabilities</i> | <u>\$1,214,368</u> |

See accompanying notes to the basic financial statements

City of Garfield Heights, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2005

Note 1 - Description of the City and Reporting Entity

The City of Garfield Heights is a municipal corporation duly organized and existing under the constitution and laws of the State of Ohio. The City operates under its own charter which was adopted on November 6, 1956. The City is governed under the mayor-council form of government.

The Mayor, elected by the voters for a four-year term, is the head of the municipal government for ceremonial, administrative and executive purposes and performs the judicial functions of the City. The chief conservator of the peace, he oversees the enforcement of all laws and ordinances. He also executes all contracts, conveyances and evidences of indebtedness of the City. The Mayor appoints the law director, finance director and service director with approval from Council.

Legislative authority is vested in an eight member council with seven members elected from wards and the president of Council elected at large. Council members are elected to two year terms. The president of Council presides at Council meetings. Council enacts ordinances and resolutions relating to tax levies and appropriates and borrows money.

The Board of Control approves all bids and is made up of four Council members (the president of Council and the Finance Committee) and four administrators (the mayor, law director, finance director and service director).

Reporting Entity

A reporting entity is comprised of the primary government, component units and other organizations that are included to ensure that the financial statements are not misleading. The primary government of the City consists of all funds, agencies, departments and offices that are not legally separate from the City. For the City of Garfield Heights this includes the agencies and departments that provide the following services: police and fire protection, emergency medical services, municipal court, parks, recreation, planning, zoning, street maintenance and repairs.

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 which are fiscally dependent on the City in that the City approves the budget, the issuance of debt or the levying of taxes. The City has no component units.

The City participates in the Northeast Ohio Public Energy Council and the First Suburbs Consortium of Northeast Ohio Council of Governments, jointly governed organizations. Information about the organizations is presented in Note 14 to the basic financial statements.

Note 2 - Summary of Significant Accounting Policies

The financial statements of the City of Garfield Heights have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting

City of Garfield Heights, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2005

and financial reporting principles. The City also applies Financial Accounting Standards Board (FASB) Statements and Interpretations issued on or before November 30, 1989, to its governmental activities unless those pronouncements conflict with or contradict GASB pronouncements. The more 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. These statements usually distinguish between those activities of the City that are governmental and those that are considered business-type. The City, however, has no business-type activities.

The statement of net assets presents the financial condition of the governmental type 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 are 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 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. The City uses two categories of funds, governmental 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:

City of Garfield Heights, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2005

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 Garfield Heights and/or the general laws of Ohio.

Bond Retirement Fund The bond retirement fund receives property and income taxes for the payment of general long-term debt principal, interest and related costs for various City improvements.

Various Improvement Fund The various improvement capital projects fund accounts for note proceeds to be used for the repair, construction or improvement of roads within the City.

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

Fiduciary Fund

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. The City's agency funds are purely custodial (assets equal liabilities) and thus does not involve measurement of results of operations. The City's agency funds account for the municipal court's resources which are due to other cities and for bond proceeds to be used for the contractors' expenses for the repair, construction or improvement of the Transportation-Antenucci Boulevard.

C. Measurement Focus

Government-wide Financial Statements The government-wide financial statements are prepared using the economic resources measurement focus. All assets and all liabilities associated with the operation of the City are included on the Statement of Net Assets. The Statement of Activities presents increases (e.g. revenues) and decreases (e.g. expenses) in total 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.

City of Garfield Heights, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2005

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. Fiduciary funds also use the accrual basis of accounting. Governmental funds use the modified accrual basis of accounting. Differences in the accrual and the 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 year in which the resources are measurable and become available. Available means that the resources will be collected within the current year or are expected to be collected soon enough thereafter to be used to pay liabilities of the current year. For the City, available means expected to be received within sixty 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 year in which the income is earned. Revenue from property taxes is recognized in the year for which the taxes are levied (See Note 8.) Revenue from grants, entitlements and donations is recognized in the fiscal 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 and motor vehicle license fees), interest, tuition, grants, fees and rentals.

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, 2005, but which were levied to finance year 2006 operations, have been recorded as deferred revenue. 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.

City of Garfield Heights, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2005

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 detail object level for all funds.

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 and final budgeted amounts on the budgetary statements reflect the amounts on the certificate of estimated resources when the original and final appropriations were enacted 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.

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 the City's records. Interest in the pool is presented as "equity in pooled cash and cash equivalents". The City had no investments during the year or at year end.

The various improvement capital projects fund made an advance to the general, recreation, street construction maintenance and repair and federal nutrition special revenue funds to eliminate the funds' negative cash balances. The general and special revenue funds have interfund payables for the amount of the advance received and the capital projects fund has an interfund receivable for the same amount.

Investment procedures are restricted by the provisions of the Ohio Revised Code. Interest revenue credited to the general fund during 2005 amounted to \$37,882, all of which was assigned from other City funds.

The City utilizes a financial institution to account for bond proceeds. The balance in this account is presented as "Cash and Cash Equivalents with Fiscal Agents."

For presentation on the financial statements, investments of the cash management pool and investments not purchased from the pool with an original maturity of three months or less are considered to be cash equivalents.

G. Inventory

Inventories are presented at cost on a first-in, first-out basis and are expended/expensed when used. Inventory consists of expendable supplies held for consumption.

City of Garfield Heights, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2005

H. Prepaid Items

Payments made to vendors for services that will benefit periods beyond December 31, 2005 are recorded as prepaid items using the consumption method. A current asset for the prepaid amount is recorded at the time of purchase and an expenditure/expense is reported in the year in which services are consumed.

I. Capital Assets

General capital assets are capital assets which are associated with and generally arise from governmental activities. These assets generally result from expenditures in the governmental funds. General capital assets are reported in the governmental activities column of the government-wide statement of net assets but are not reported in the fund financial statements.

All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. The City was able to estimate the historical cost for the initial reporting of infrastructure by backtrending (i.e., estimating the current replacement cost of the infrastructure to be capitalized and using an appropriate price-level index to deflate the cost to the acquisition year or estimated acquisition year). Donated capital assets are recorded at their fair market values as of the date received. The City maintains a capitalization threshold of one thousand dollars. 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 are depreciated except for land and construction in progress. 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:

| Description | Estimated Lives |
|-----------------------------------|-----------------|
| Buildings | 5 - 50 years |
| Improvements Other than Buildings | 5 - 50 years |
| Vehicles | 3 - 7 years |
| Machinery and Equipment | 3 - 25 years |
| Furniture and Fixtures | 7 - 10 years |
| Infrastructure | 10 - 99 years |

Infrastructure consists of roadways, sanitary sewers, storm sewers and water supply lines and includes infrastructure acquired prior to December 31, 1980.

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

Vacation benefits are accrued as a liability as the benefits are earned if the employees' rights to receive the compensation are attributable to services already rendered and it is probable that the City will compensate the employees for the benefits through paid time off or some other means. Sick leave

City of Garfield Heights, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2005

benefits are accrued as a liability using the vesting method. The liability includes the employees who are currently eligible to receive termination benefits and those the City has identified as probable of receiving payment in the future. The amount is based on accumulated sick leave and employees' wage rates at year end, taking into consideration any limits in the City's termination policy. The City records a liability for accumulated unused vacation and sick leave for all employees after one year of service.

Overtime is paid in the period in which it was worked, except for the Police and Fire Department employees, who may accumulate overtime within limits built into the contracts. At the time of separation, these employees are entitled to payment for any accumulated but unused overtime.

L. Accrued 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 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 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 constitutional provisions or enabling legislation or through external restrictions imposed by creditors, grantors or laws or regulations of other governments. The government-wide statement of net assets reports \$6,319,825 of restricted net assets, of which \$1,785,999 is restricted by enabling legislation. Net assets restricted for other purposes include community development and street maintenance.

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

O. Bond Issuance Costs

Bond issuance costs for underwriting fees and bond insurance for the various improvements general obligation bond are being amortized using straight-line method over the life of the bonds on the government-wide statements. The straight-line method of amortization is not materially different from the effective-interest method. Issuance costs are reported as an expenditure in the year incurred on the fund financial statements.

City of Garfield Heights, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2005

P. Interfund Activity

Exchange transactions between funds are reported as revenues in the seller funds and as expenditures 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 to the funds that initially paid for them are not presented on the financial statements.

Q. Extraordinary and Special Items

Extraordinary items are transactions or events that are both unusual in nature and infrequent in occurrence. Special items are transactions or events that are within the control of the City Administration and that are either unusual in nature or infrequent in occurrence.

R. Estimates

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

Note 3 - Change in Accounting Principles and Restatement of Fund Balances

A. Change in Accounting Principles

For 2005, the City has implemented GASB Statement No. 40, "Deposit and Investment Risk Disclosures," and GASB Statement No. 42 "Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries."

GASB Statement No. 40 establishes new disclosure requirements for risks associated with deposits and investments.

GASB Statement No. 42 establishes accounting and financial reporting standards for impairment of capital assets and clarifies and establishes accounting requirements for insurance recoveries.

The implementation of GASB Statement No. 42 did not affect the presentation of the financial statement of the City.

City of Garfield Heights, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2005

B. Restatement of Fund Balances

During 2005, it was determined that cash was overstated. This restatement had the following effect on fund balances.

| | <u>General</u> | <u>Bond Retirement</u> | <u>Various Improvement</u> | <u>Other Governmental Funds</u> | <u>Total Governmental Funds</u> |
|--|-----------------------------|----------------------------|--------------------------------|---|---|
| Fund Balances, December 31, 2004 | (\$1,426,837) | \$145,706 | \$1,347,809 | (\$1,530,763) | (\$1,464,085) |
| Cash | <u>0</u> | <u>0</u> | <u>(163,810)</u> | <u>0</u> | <u>(163,810)</u> |
| Adjusted Fund Balances, December 31, 2004 | <u><u>(\$1,426,837)</u></u> | <u><u>\$145,706</u></u> | <u><u>\$1,183,999</u></u> | <u><u>(\$1,530,763)</u></u> | <u><u>(\$1,627,895)</u></u> |

This restatement decreased net assets at December 31, 2004 by \$163,810, from \$8,985,726 to \$8,821,916.

Note 4 - Budgetary Basis of Accounting

While reporting financial position, results of operations, and changes in fund balances on the basis of generally accepted accounting principles (GAAP basis), the budgetary basis as provided by law is based upon accounting for transactions on a basis of cash receipts, disbursements and encumbrances. The Statement of Revenues, Expenditures, and Changes in Fund Balance - Budget (Non-GAAP Basis) and Actual are presented in the basic financial statements for the general fund. The major differences between the budget basis and the GAAP basis (generally accepted accounting principles) are:

1. Revenues are recorded when received in cash (budget) as opposed to when susceptible to accrual (GAAP).
2. Expenditures 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).
4. Unrecorded cash represents amounts received but not included as revenue on the budgetary statements, but which is reported on the operating statements prepared using GAAP.

City of Garfield Heights, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2005

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 | |
|---|---------------------------|
| GAAP Basis | (\$977,762) |
| Net Adjustment for Revenue Accruals | 695,656 |
| Beginning Unrecorded Cash | 50,902 |
| Ending Unrecorded Cash | (126,972) |
| Net Adjustment for Expenditure Accruals | 59,708 |
| Encumbrances | <u>(408,328)</u> |
| Budget Basis | <u><u>(\$706,796)</u></u> |

Note 5 - Accountability and Compliance

A. Accountability

The following funds had deficit fund balances as of December 31, 2005

| | |
|---|-------------|
| <i>General Fund</i> | \$2,404,599 |
| <i>Special Revenue Funds</i> | |
| Police Pension | 194,189 |
| Fire Pension | 178,045 |
| Recreation | 228,526 |
| Street Construction, Maintenance and Repair | 614,932 |
| Federal Nutrition | 529,289 |
| Municipal Court Probation | 3,728 |
| <i>Capital Projects Funds</i> | |
| Permanent Improvement | 686,460 |

The general fund concluded 2005 with a deficit fund balance of \$2,404,599. The deficit resulted because the City expended more and committed more than they received or will receive in revenue.

The special revenue funds and the permanent improvement capital projects fund have deficits caused by the recognition of expenditures on a modified accrual basis of accounting which are substantially greater than the expenditures recognized on a cash basis. The general fund is liable for any deficit in these funds and provides operating transfers when cash is required, not when accruals occur.

City of Garfield Heights, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2005

B. Compliance

The following accounts had expenditures plus encumbrances in excess of appropriations, contrary to Ohio Revised Code Section 5705.41.

| Fund | Expenditures Plus Encumbrances | Appropriations | Excess |
|------------------------------------|--------------------------------------|----------------|--------|
| General Fund | | | |
| General Government | | | |
| Finance | | | |
| Personal Services | | | |
| Training and Education | \$2,313 | \$1,500 | \$813 |
| Hospitalization and Life Insurance | 62,925 | 57,750 | 5,175 |
| Contractual Services | | | |
| Special Services | 61,279 | 56,000 | 5,279 |
| Legal Administration | | | |
| Personal Services | | | |
| Salaries and Wages | 385,213 | 375,000 | 10,213 |
| Pension | 78,520 | 72,000 | 6,520 |
| Hospitalization and Life Insurance | 52,903 | 48,500 | 4,403 |
| Contractual Services | | | |
| Special Services | 77,941 | 37,500 | 40,441 |
| Engineer | | | |
| Contractual Services | | | |
| Special Services | 22,500 | 21,000 | 1,500 |
| Court | | | |
| Personal Services | | | |
| Salaries and Wages | 705,852 | 695,000 | 10,852 |
| Jury/Witness Fees | 2,631 | 2,500 | 131 |
| Pension | 96,746 | 94,500 | 2,246 |
| Hospitalization and Life Insurance | 198,107 | 187,250 | 10,857 |
| Lands and Buildings | | | |
| Personal Services | | | |
| Salaries and Wages | 632,646 | 603,000 | 29,646 |
| Pension | 88,377 | 81,750 | 6,627 |
| Hospitalization and Life Insurance | 134,278 | 122,250 | 12,028 |
| Uniform/Clothing | 7,288 | 5,000 | 2,288 |
| Contractual Services | | | |
| Special Services | 118,674 | 110,000 | 8,674 |
| Other | | | |
| Property Insurance | 41,914 | 40,250 | 1,664 |
| Taxes | 12,452 | 11,000 | 1,452 |
| Building Standards and Maintenance | | | |
| Personal Services | | | |
| Hospitalization and Life Insurance | 83,288 | 76,196 | 7,092 |
| Contractual Services | | | |
| Special Services | 29,313 | 12,000 | 17,313 |

City of Garfield Heights, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2005

| Fund | Expenditures Plus Encumbrances | Appropriations | Excess |
|------------------------------------|--------------------------------------|----------------|----------|
| General Fund | | | |
| General Government | | | |
| Administration Support | | | |
| Personal Services | | | |
| Salaries and Wages | \$231,766 | \$215,000 | \$16,766 |
| Pension | 51,475 | 47,500 | 3,975 |
| Hospitalization and Life Insurance | 32,003 | 29,500 | 2,503 |
| Executive Mayor | | | |
| Personal Services | | | |
| Pension | 40,683 | 40,000 | 683 |
| Legislative | | | |
| Personal Services | | | |
| Pension | 14,812 | 14,650 | 162 |
| Hospitalization and Life Insurance | 21,166 | 19,500 | 1,666 |
| Dues and Subscriptions | 1,040 | 1,000 | 40 |
| Civil Service Commission | | | |
| Personal Services | | | |
| Salaries and Wages | 5,061 | 4,525 | 536 |
| Pension | 718 | 603 | 115 |
| Contractual Services | | | |
| Special Services | 13,900 | 11,400 | 2,500 |
| Planning and Zoning | | | |
| Personal Services | | | |
| Salaries and Wages | 11,360 | 11,180 | 180 |
| Pension | 1,593 | 1,514 | 79 |
| Advertising | 8,722 | 3,000 | 5,722 |
| Miscellaneous | | | |
| Personal Services | | | |
| Medicare Reimbursement | 135,270 | 128,500 | 6,770 |
| Dues and Subscriptions | 21,653 | 17,500 | 4,153 |
| Contractual Services | | | |
| Special Services | 304,311 | 210,000 | 94,311 |
| Ambulance Services | 1,206 | 1,100 | 106 |
| Materials and Supplies | | | |
| Operating Supplies | 22,496 | 10,000 | 12,496 |
| Other | | | |
| Insurance Claims | 27,094 | 7,000 | 20,094 |
| Election Expense | 779 | 0 | 779 |
| Liability Insurance | 113,254 | 112,000 | 1,254 |
| State Examiner | 45,055 | 44,000 | 1,055 |
| Health and Welfare | 138,897 | 133,000 | 5,897 |
| Child Abuse Reimbursement | 16,564 | 16,500 | 64 |

City of Garfield Heights, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2005

| Fund | Expenditures Plus Encumbrances | Appropriations | Excess |
|------------------------------------|--------------------------------------|----------------|---------|
| General Fund | | | |
| Security of Persons and Property | | | |
| General Law Enforcement | | | |
| Personal Services | | | |
| Salaries and Wages | \$4,059,394 | \$4,057,000 | \$2,394 |
| Hospitalization and Life Insurance | 634,167 | 587,000 | 47,167 |
| Contractual Services | | | |
| Special Services | 127,951 | 100,000 | 27,951 |
| Materials and Supplies | | | |
| Operating Supplies | 38,606 | 24,000 | 14,606 |
| Fire Prevention | | | |
| Personal Services | | | |
| Dues and Subscriptions | 2,251 | 2,000 | 251 |
| Hospitalization and Life Insurance | 485,088 | 439,196 | 45,892 |
| Contractual Services | | | |
| Special Services | 72,001 | 31,000 | 41,001 |
| Safety Administration | | | |
| Personal Services | | | |
| Salaries and Wages | 88,166 | 86,000 | 2,166 |
| Pension | 16,621 | 11,650 | 4,971 |
| Hospitalization and Life Insurance | 20,891 | 19,080 | 1,811 |
| Police Communication | | | |
| Personal Services | | | |
| Salaries and Wages | 511,170 | 485,000 | 26,170 |
| Pension | 70,360 | 65,700 | 4,660 |
| Hospitalization and Life Insurance | 115,096 | 105,176 | 9,920 |
| Animal Control | | | |
| Personal Services | | | |
| Hospitalization and Life Insurance | 10,308 | 9,378 | 930 |
| Contractual Services | | | |
| Special Services | 347 | 300 | 47 |
| Public Health Services | | | |
| Correctional Institution | | | |
| Personal Services | | | |
| Salaries and Wages | 298,535 | 285,000 | 13,535 |
| Pension | 40,311 | 37,500 | 2,811 |
| Hospitalization and Life Insurance | 62,648 | 57,000 | 5,648 |
| Community Development | | | |
| Economic Development | | | |
| Personal Services | | | |
| Salaries and Wages | 96,096 | 94,200 | 1,896 |
| Pension | 22,568 | 19,125 | 3,443 |
| Hospitalization and Life Insurance | 10,572 | 9,700 | 872 |

City of Garfield Heights, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2005

| Fund | Expenditures Plus Encumbrances | Appropriations | Excess |
|------------------------------------|--------------------------------------|----------------|----------|
| <i>General Fund</i> | | | |
| Basic Utility Services | | | |
| Sewer Operating | | | |
| Personal Services | | | |
| Hospitalization and Life Insurance | \$30,924 | \$19,645 | \$11,279 |
| Materials and Supplies | | | |
| Operating Supplies | 10,050 | 10,000 | 50 |
| <i>Recreation Fund</i> | | | |
| Leisure Time Activities | | | |
| Recreation Board | | | |
| Personal Services | | | |
| Pension | 149 | 130 | 19 |
| Contractual Services | | | |
| Utilities | 84,657 | 80,000 | 4,657 |
| Materials and Supplies | | | |
| Operating Supplies | 52,891 | 50,000 | 2,891 |
| Other | | | |
| County Auditor | 721 | 718 | 3 |
| Administrative | | | |
| Personal Services | | | |
| Pension | 68,754 | 60,000 | 8,754 |
| Hospitalization and Life Insurance | 82,881 | 75,500 | 7,381 |
| Contractual Services | | | |
| Special Services | 18,965 | 12,000 | 6,965 |
| Swim/Golf/Tennis | | | |
| Personal Services | | | |
| Pension | 6,409 | 6,100 | 309 |
| Contractual Services | | | |
| Special Services | 255 | 250 | 5 |
| Materials and Supplies | | | |
| Operating Supplies | 15,262 | 11,000 | 4,262 |
| Skating | | | |
| Contractual Services | | | |
| Special Services | 24,259 | 12,000 | 12,259 |
| Concessions | | | |
| Materials and Supplies | | | |
| Operating Supplies | 20,650 | 18,000 | 2,650 |

City of Garfield Heights, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2005

| Fund | Expenditures Plus Encumbrances | Appropriations | Excess |
|---|--------------------------------------|----------------|---------|
| <i>Street Lighting Fund</i> | | | |
| Security of Persons and Property | | | |
| Street Lighting | | | |
| Other | | | |
| County Auditor | \$5,530 | \$5,500 | \$30 |
| <i>Average Pay</i> | | | |
| Security of Persons and Property | | | |
| Average Pay | | | |
| Other | | | |
| County Auditor | 61,557 | 56,499 | 5,058 |
| <i>City Income Tax Fund</i> | | | |
| General Government | | | |
| Income Tax | | | |
| Contractual Services | | | |
| Special Services | 328,979 | 270,000 | 58,979 |
| Transfers | | | |
| Transfers Elec. General Fund | 37,572 | 6,000 | 31,572 |
| Transfers Elec. Street Construction, Maintenance and Repair Fund | 3,006 | 480 | 2,526 |
| Transfers Elec. Recreation Fund | 3,006 | 480 | 2,526 |
| Transfers Elec. Sanitary and Storm Sewer Fund | 3,006 | 480 | 2,526 |
| Transfers Elec. Debt Amortization Fund | 3,507 | 560 | 2,947 |
| Transfers General Fund | 6,919,401 | 6,547,500 | 371,901 |
| Transfers Street Construction, Maintenance and Repair Fund | 553,552 | 523,800 | 29,752 |
| Transfers Recreation Fund | 553,552 | 523,800 | 29,752 |
| Transfers Sanitary and Storm Sewer Fund | 553,552 | 523,800 | 29,752 |
| Transfers Debt Amortization Fund | 645,811 | 611,100 | 34,711 |
| <i>Federal Nutrition Fund</i> | | | |
| Public Health Services | | | |
| Personal Services | | | |
| Salaries and Wages | 262,317 | 250,000 | 12,317 |
| Pension | 43,477 | 40,000 | 3,477 |
| Hospitalization and Life Insurance | 72,677 | 66,320 | 6,357 |
| Contractual Services | | | |
| Special Services | 8,445 | 2,000 | 6,445 |
| Materials and Supplies | | | |
| Operating Supplies | 6,609 | 5,000 | 1,609 |

City of Garfield Heights, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2005

| Fund | Expenditures Plus Encumbrances | Appropriations | Excess |
|---|--------------------------------------|----------------|---------|
| <i>Street Cleaning Fund</i> | | | |
| Transportation | | | |
| Traffic Control | | | |
| Personal Services | | | |
| Hospitalization and Life Insurance | \$37,342 | \$28,150 | \$9,192 |
| Materials and Supplies | | | |
| Operating Supplies | 7,116 | 7,000 | 116 |
| Street Construction | | | |
| Personal Services | | | |
| Pension | 102,331 | 101,625 | 706 |
| Hospitalization | 150,284 | 148,000 | 2,284 |
| Materials and Supplies | | | |
| Operating Supplies | 70,761 | 40,000 | 30,761 |
| <i>Municipal Court Probation Services Fund</i> | | | |
| General Government | | | |
| Contractual Services | | | |
| Special Services | 2,944 | 550 | 2,394 |
| <i>Permanent Improvement Fund</i> | | | |
| Security of Persons and Property, Transportation and Leisure Time Activities | | | |
| Permanent Improvement | | | |
| Capital Outlay | | | |
| Equipment Capital Outlay | 773,988 | 600,000 | 173,988 |
| Other | | | |
| County Auditor | 4,809 | 4,800 | 9 |
| <i>Storm and Sanitary Sewer Fund</i> | | | |
| Capital Outlay | | | |
| Personal Services | | | |
| Hospitalization and Life Insurance | 30,924 | 28,150 | 2,774 |
| <i>Municipal Court Probation Services Fund</i> | | | |
| Capital Outlay | | | |
| Personal Services | | | |
| Salaries and Wages | 72,250 | 65,000 | 7,250 |
| Pension | 11,247 | 8,808 | 2,439 |
| Hospitalization and Life Insurance | 10,583 | 9,600 | 983 |
| <i>Revolving Fund</i> | | | |
| General Government | | | |
| Personal Services | | | |
| Salaries and Wages | 291,560 | 237,000 | 54,560 |
| Pension | 42,990 | 32,000 | 10,990 |
| Hospitalization and Life Insurance | 41,232 | 37,500 | 3,732 |
| Uniform/Clothing | 7,706 | 3,000 | 4,706 |

City of Garfield Heights, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2005

| Fund | Expenditures Plus Encumbrances | Appropriations | Excess |
|-------------------------------|--------------------------------------|----------------|----------|
| <i>Revolving Fund</i> | | | |
| General Government | | | |
| Contractual Services | | | |
| Special Services | \$85,094 | \$65,000 | \$20,094 |
| Utilities | 100,174 | 80,000 | 20,174 |
| Materials and Supplies | | | |
| Operating Supplies | 155,447 | 150,000 | 5,447 |
| Gasoline | 168,884 | 136,500 | 32,384 |
| Diesel Fuel | 56,064 | 34,000 | 22,064 |
| Tires and Tubes | 21,453 | 18,000 | 3,453 |
| Miscellaneous Repair Parts | 129,563 | 60,000 | 69,563 |
| <i>Restricted Fund</i> | | | |
| General Government | | | |
| Transfers | | | |
| Transfers General Fund | 30,319 | 22,000 | 8,319 |
| Refunds and Reimbursements | 68,365 | 40,000 | 28,365 |

The City had negative cash balances in the following funds indicating that revenue from other sources were used to pay obligations of these funds contrary to Ohio Revised Code Section 5705.10:

| | |
|---|-----------|
| General Fund | \$600,112 |
| Special Revenue Funds | |
| Recreation | 66,439 |
| Street Construction, Maintenance and Repair | 316,121 |
| Federal Nutrition | 461,726 |

Additionally, throughout the year, the City had funds with negative cash balances that ranged from \$3,126 to \$1,340,184.

Although these budgetary violations and cash deficits were not corrected by year end, management has indicated that appropriations and cash will be closely monitored to prevent future violations. The City is aggressively looking for new sources of revenue and expenditure reductions to ensure that the City maintains positive cash fund balances in the future.

The City had some illegal transfers, contrary to Ohio Revised Code Section 5705.14.

Note 6 - Deposits and Investments

Monies held by the City are classified by State statute into three categories.

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

City of Garfield Heights, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2005

Inactive deposits are public deposits that Council has identified as not required for use within the current five 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 deposits 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 held by the City can be deposited or invested in the following securities:

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 payment of principal and interest by the United States;
2. Bonds, notes, debentures, or any other obligations or securities issued by any federal government agency or instrumentality, including, but not limited to, 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 securities listed above;
4. Bonds and other obligations of the State of Ohio or Ohio local governments;
5. Time certificates of deposit or savings or deposit accounts including, but not limited to, passbook accounts;
6. No-load money market mutual funds consisting exclusively of obligations described in division (1) or (2) and repurchase agreements secured by such obligations;
7. The State Treasurer's investment pool (STAROhio);
8. Commercial paper and bankers acceptances if training requirements have been met.

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. Investments may only be made through specified dealers and institutions.

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 possession of an outside party. At year end, \$3,656,524 of the City's bank balance of \$3,956,524 was uninsured and uncollateralized. Although the securities were held by the pledging financial institutions' trust department and all statutory requirements for the investment of money had been followed, noncompliance with Federal requirements could potentially subject the City to a successful claim by the Federal Deposit Insurance Corporation.

City of Garfield Heights, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2005

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.

Note 7 - Contingencies

A. Grants

The City receives financial assistance from federal and state agencies in the form of grants. The disbursements of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and is subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the general fund or other applicable funds. However, in the opinion of management, any such disallowed claims will not have a material effect on the overall financial position of the City at December 31, 2005.

B. Litigation

The City is a party to various legal proceedings seeking damages. The City management is of the opinion that ultimate disposition of these claims and legal proceedings will not have a material effect, if any, on the financial condition of the City.

Note 8 – Receivables

Receivables at December 31, 2005 consisted primarily of taxes, intergovernmental receivables and special assessments. No allowances for doubtful accounts have been recorded as uncollectible amounts are expected to be insignificant.

Special assessments expected to be collected in more than one year amount to \$1,133,965 in the bond retirement fund. At December 31, 2005 the amount of delinquent special assessments was \$83,441.

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 2005 for real and public utility property taxes represents collections of the 2004 taxes. Property tax payments received during 2005 for tangible personal property (other than public utility property) are for 2005 taxes.

2005 real property taxes are levied after October 1, 2005 on the assessed value as of January 1, 2005, the lien date. Assessed values are established by State law at 35 percent of appraised market value. 2005 real property taxes are collected in and intended to finance 2006.

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. 2005 public utility property taxes which became a lien December 31, 2004, are levied after October 1, 2005, and are collected in 2006 with real property taxes.

City of Garfield Heights, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2005

2005 tangible personal property taxes are levied after October 1, 2004, on the value as of December 31, 2004. Collections are made in 2005. Tangible personal property assessments are 25 percent of true value for capital assets and 23 percent of true value for inventory.

The full tax rate for all City operations for the year ended December 31, 2005, was \$21.90 per \$1,000 of assessed value. The assessed values of real and tangible personal property upon which 2005 property tax receipts were based are as follows:

| | |
|----------------------------|----------------------|
| Real Property: | |
| Agricultural/Residential | \$350,611,960 |
| Other Real Estate | 98,163,000 |
| Public Utility | 18,895,590 |
| Tangible Personal Property | <u>24,315,862</u> |
| Total Assessed Value | <u>\$491,986,412</u> |

Real property taxes are payable annually or semiannually. 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 semiannually. If paid annually, payment is due April 30; if paid semiannually, the first payment is due April 30; with the remainder payable by September 20.

The County Treasurer collects property taxes on behalf of all taxing districts in the county, including the City of Garfield Heights. The County Auditor periodically remits to the City its portion of the taxes collected. Property taxes receivable represents real and tangible personal property taxes and public utility taxes which are measurable as of December 31, 2005, and for which there is an enforceable legal claim. In the governmental funds, the entire receivable has been offset by deferred revenue since the current taxes were not levied to finance 2005 operations and the collection of delinquent taxes during the available period is not subject to reasonable estimation. On a full accrual basis, collectible delinquent property taxes have been recorded as a receivable and revenue while the remainder of the receivable is deferred.

B. Income Taxes

The City levies a municipal income tax of two percent on all salaries, wages, commissions and other compensation, and net profits earned within the City as well as incomes of residents earned outside of the City. In the latter case the City allows a credit of 100 percent of the tax paid to another municipality to a maximum of the total amount assessed. Employers within the City are required to withhold income tax on employee compensation and remit the tax to the City either monthly or quarterly. Corporations and other individual taxpayers are required to pay their estimated tax quarterly and file a declaration annually. By City ordinance, income tax proceeds are credited to the following funds: 75 percent to the general fund, 6 percent to the recreation special revenue fund, 6 percent to the street construction maintenance and repair special revenue fund, 7 percent to the bond retirement debt service fund and 6 percent to the storm and sanitary sewer capital projects fund.

City of Garfield Heights, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2005

C. Intergovernmental Receivables

A summary of the principal items of intergovernmental receivables follows:

| | Amount |
|--|--------------------|
| Grants | \$1,203,020 |
| Local Government | 986,386 |
| Ohio Public Works Commission | 810,389 |
| Homestead and Rollback | 619,465 |
| Gas Tax | 580,197 |
| Cuyahoga County | 448,325 |
| Motor Vehicle License | 95,034 |
| Estate Tax | 74,327 |
| Public Utilities Reimbursement | 40,365 |
| Prisoner Rebills Reimbursement | 11,815 |
| City of Bedford | 11,643 |
| Prisoner Housing | 5,389 |
| Liquor Permit Fees | 4,536 |
| Immobilization Fees | 2,700 |
| Hotel Tax | 815 |
| Cigarette Tax | 51 |
| <i>Total Intergovernmental Receivables</i> | <i>\$4,894,457</i> |

Note 9 - Capital Leases

In 2005, the City entered into a lease for vehicles. The City's lease obligation met the criteria of a capital lease as defined by Financial Accounting Standards Board Statement Number 13, "Accounting for Leases," and have been recorded on the government-wide statements. The vehicles have been capitalized in the amount of \$600,000, the present value of the minimum lease payments at the inception of the lease. The book value of the vehicles as of December 31, 2005 was \$600,000.

The following is a schedule of the future minimum lease payments required under the capital lease and the present value of the minimum lease payments as of December 31, 2005.

| | Amounts |
|---|-----------|
| 2006 | \$319,700 |
| 2007 | 319,700 |
| Total Minimum Lease Payments | 639,400 |
| Less: Amount representing Interest | (39,400) |
| Present Value of Minimum Lease Payments | \$600,000 |

Capital lease payments have been reclassified and reflected as debt service expenditures in the fund financial statement for the general and recreation, street construction, maintenance and repair and federal nutrition special revenue funds. These expenditures are reflected as program expenditures on a budgetary basis.

City of Garfield Heights, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2005

Note 10 - Capital Assets

Capital asset activity for the year ended December 31, 2005, was as follows:

| | Balance 12/31/04 | Additions | Deductions | Balance 12/31/05 |
|---|---------------------|----------------------|-------------------|---------------------|
| Governmental Activities | | | | |
| <i>Capital Assets, Not Being Depreciated</i> | | | | |
| Land | \$1,506,067 | \$0 | (\$1,747) | \$1,504,320 |
| Construction in Progress | 0 | 2,395,000 | 0 | 2,395,000 |
| <i>Total Capital Assets, Not Being Depreciated</i> | <u>1,506,067</u> | <u>2,395,000</u> | <u>(1,747)</u> | <u>3,899,320</u> |
| <i>Capital Assets, Being Depreciated</i> | | | | |
| Buildings | 15,820,113 | 0 | 0 | 15,820,113 |
| Improvements Other than Buildings | 4,428,063 | 0 | 0 | 4,428,063 |
| Vehicles | 4,525,590 | 612,811 | (303,261) | 4,835,140 |
| Machinery and Equipment | 3,834,177 | 84,735 | (28,491) | 3,890,421 |
| Furniture and Fixtures | 633,746 | 27,096 | 0 | 660,842 |
| Infrastructure | | | | |
| Roads | 22,314,328 | 0 | 0 | 22,314,328 |
| Sanitary Sewers | 3,274,217 | 304,438 | 0 | 3,578,655 |
| Storm Sewers | 1,661,471 | 0 | 0 | 1,661,471 |
| Water Supply Lines | 661,641 | 0 | 0 | 661,641 |
| <i>Total Capital Assets, Being Depreciated</i> | <u>57,153,346</u> | <u>1,029,080</u> | <u>(331,752)</u> | <u>57,850,674</u> |
| <i>Less Accumulated Depreciation</i> | | | | |
| Buildings | (3,914,196) | (348,179) | 0 | (4,262,375) |
| Improvements Other than Buildings | (1,519,736) | (131,279) | 0 | (1,651,015) |
| Vehicles | (2,312,896) | (360,257) | 264,339 | (2,408,814) |
| Machinery and Equipment | (2,412,602) | (307,214) | 24,483 | (2,695,333) |
| Furniture and Fixtures | (395,063) | (30,620) | 0 | (425,683) |
| Infrastructure | | | | |
| Roads | (8,340,556) | (892,573) | 0 | (9,233,129) |
| Sanitary Sewers | (640,124) | (68,529) | 0 | (708,653) |
| Storm Sewers | (267,361) | (33,229) | 0 | (300,590) |
| Water Supply Lines | (95,018) | (13,233) | 0 | (108,251) |
| <i>Total Accumulated Depreciation</i> | <u>(19,897,552)</u> | <u>(2,185,113) *</u> | <u>288,822</u> | <u>(21,793,843)</u> |
| <i>Total Capital Assets being Depreciated, Net</i> | <u>37,255,794</u> | <u>(1,156,033)</u> | <u>(42,930)</u> | <u>36,056,831</u> |
| <i>Capital Assets, Net</i> | <u>\$38,761,861</u> | <u>\$1,238,967</u> | <u>(\$44,677)</u> | <u>\$39,956,151</u> |

City of Garfield Heights, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2005

* Depreciation expense was charged to governmental functions as follows:

| | |
|----------------------------------|---------------------------|
| General Government | \$497,980 |
| Security of Persons and Property | 399,246 |
| Public Health Services | 51,993 |
| Transportation | 986,916 |
| Community Development | 99 |
| Basic Utility Services | 137,729 |
| Leisure Time Activities | <u>111,150</u> |
| Total Depreciation Expense | <u><u>\$2,185,113</u></u> |

Note 11 - Compensated Absences

Employees earn vacation leave at different rates which are affected by the employee's length of service. Once vacation leave is earned it cannot be taken away from the employee. Within the labor contracts and/or agreements for the Police, Firemen, Dispatchers and Jailers, and administrative employees of the City there is language allowing the carry-over of vacation credits into future periods, through the written approval of either the department chief, director or the Mayor. The only limits placed upon any of these classes of employees is the limit in the fire contract that the City will only pay out at retirement a maximum of 6 weeks of vacation credits. In an effort to avoid many vacation accruals the City has agreed in negotiations to the right of the employee to be paid for unused vacation leave during the month of December. At retirement or separation from City employment the employee would be entitled to payment at the current rate of pay for any earned but unused vacation credits they may have.

Overtime is paid for in the period in which it is worked, except for the Police and Fire Department employees, who may accumulate overtime within limits built into the contracts. At the time of separation, these employees are entitled to payment for any accumulated but unused overtime.

Sick leave may be accumulated without limit. Upon retirement, death, or leaving City service, employees are entitled to payment of any accumulated but unused sick leave as follows: Fire Department employees at 50 percent, provided the employee had at least 15 years of service with the City; all other employees at 50 percent of accumulated but unused sick leave, without any service requirement.

Note 12 – Interfund Transfers and Balances

A. Interfund Transfers

| Transfer To | Transfer From | | | Totals |
|--------------------------|---------------|------------------------|--------------------------------|-------------|
| | General | Various Improvement | Other Governmental Funds | |
| Bond Retirement | \$0 | \$485,100 | \$380,000 | \$865,100 |
| Other Governmental Funds | 1,443,700 | 0 | 74,351 | 1,518,051 |
| Totals | \$1,443,700 | \$485,100 | \$454,351 | \$2,383,151 |

City of Garfield Heights, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2005

Transfers are used to move revenues from the fund that statute or budget requires to collect them to the fund that the statute or budget requires to expend them; to move unrestricted revenues collected in the general fund to finance various programs accounted for in other funds in accordance with budgetary authorizations; to provide additional resources for current operations or debt service; to segregate money for anticipated capital projects; and to return money to the fund from which it was originally provided once a project is completed.

During 2005 the general fund transferred out \$1,443,700 to various other governmental funds. Of this total \$622,310 was transferred to the police pension fund and \$542,224 was transferred to the fire pension fund. These two funds were set up as special revenue funds in past years in order to correctly identify a small percentage of the property tax revenues that were earmarked by the voters for the payment of pension amounts for the City's police and fire safety officers. After these tax revenues are received from the County through the property tax distributions, any remaining balance needed to pay the pension payments is transferred to these funds from the general fund. The remaining general fund transfers of \$75,000 to the recreation and \$204,166 to the federal nutrition fund were all necessitated because those funds did not generate enough revenue to support the activities of the particular funds.

The various improvement capital project fund transferred \$485,100 to the bond retirement debt service fund was to pay the first interest payment and some administrative charges on the bond issue.

The municipal vehicle license tax special revenue fund and the storm and sanitary sewer capital projects fund transferred \$180,000 and \$200,000, respectively, to the bond retirement debt service fund to cover their portion of bond retirement.

The permanent improvement capital projects fund transferred \$74,351 to the street construction, maintenance and repair special revenue fund for repairs to City streets.

B. Interfund Balances

| | Interfund Receivable |
|---|-------------------------|
| Interfund Payable | Various Improvement |
| General | \$600,112 |
| Other Governmental Funds: | |
| Recreation | 66,439 |
| Street Construction, Maintenance and Repair | 316,121 |
| Federal Nutrition | 461,726 |
| Totals | \$1,444,398 |

The interfund receivables and payables were the result of deficit cash balances and due to the timing of the receipt of grant monies at year end.

City of Garfield Heights, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2005

Note 13 - Long-Term Obligations

Changes in long-term obligations of the City during the year ended December 31, 2005 were as follows:

| | Outstanding 12/31/2004 | Additions | Reductions | Outstanding 12/31/2005 | Amounts Due in One Year |
|---------------------------------------|---------------------------|------------|--------------------|---------------------------|-------------------------------|
| Governmental Activities | | | | | |
| General Obligation Bonds | | | | | |
| 1986 9.25% \$1,450,000 | | | | | |
| Street Improvement | \$150,000 | \$0 | (\$75,000) | \$75,000 | \$75,000 |
| 1994 4.05%-6.3% \$3,800,000 | | | | | |
| Various Purpose Improvement | 2,215,000 | 0 | (165,000) | 2,050,000 | 180,000 |
| 1996 4.7%-6.625% \$810,000 | | | | | |
| Various Purpose - Canal Warner | 27,172 | 0 | (1,613) | 25,559 | 1,844 |
| 1996 4.7%-6.625% \$610,000 | | | | | |
| Various Purpose - Sunset | 66,494 | 0 | (4,587) | 61,907 | 4,587 |
| 1996 4.7%-6.625% \$3,190,000 | | | | | |
| Various Purpose - Streets | 2,515,000 | 0 | (155,000) | 2,360,000 | 160,000 |
| 1998 3.65%-4.6% \$2,645,000 | | | | | |
| Justice Center Refunding | 1,505,000 | 0 | (275,000) | 1,230,000 | 290,000 |
| 1998 3.65%-4.6% \$3,775,000 | | | | | |
| Civic Center Refunding | 3,085,000 | 0 | (200,000) | 2,885,000 | 210,000 |
| 1998 3.6%-4.6% \$4,460,000 | | | | | |
| Various Improvements | 3,490,000 | 0 | (185,000) | 3,305,000 | 195,000 |
| 2002 1.09%-5.55% \$7,300,000 | | | | | |
| Various Improvements | 7,100,000 | 0 | (100,000) | 7,000,000 | 190,000 |
| 2004 4.75% \$9,900,000 | | | | | |
| Various Improvements | 9,900,000 | 0 | 0 | 9,900,000 | 0 |
| <i>Total General Obligation Bonds</i> | <u>30,053,666</u> | <u>0</u> | <u>(1,161,200)</u> | <u>28,892,466</u> | <u>1,306,431</u> |
| Special Assessment Bonds | | | | | |
| 1986 7.75% \$230,000 | | | | | |
| Johnston Rockside Improvement | 24,000 | 0 | (12,000) | 12,000 | 12,000 |
| 1994 4.05%-6.3% \$606,000 | | | | | |
| Neo Parkway Improvement | 385,000 | 0 | (30,000) | 355,000 | 30,000 |
| 1996 4.7%-6.625% \$810,000 | | | | | |
| Various Purpose - Canal Warner | 562,828 | 0 | (33,387) | 529,441 | 38,156 |
| 1996 4.7%-6.625% \$610,000 | | | | | |
| Various Purpose - Sunset | 368,506 | 0 | (25,413) | 343,093 | 25,413 |
| <i>Total Special Assessment Bonds</i> | <u>\$1,340,334</u> | <u>\$0</u> | <u>(\$100,800)</u> | <u>\$1,239,534</u> | <u>\$105,569</u> |

City of Garfield Heights, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2005

| | Outstanding 12/31/2004 | Additions | Reductions | Outstanding 12/31/2005 | Amounts Due in One Year |
|---|---------------------------|--------------------|----------------------|---------------------------|-------------------------------|
| <i>Other Governmental Activities</i> | | | | | |
| Notes Payable | \$0 | \$4,000,000 | \$0 | \$4,000,000 | \$0 |
| Compensated Absences Payable | 4,346,099 | 484,525 | (200,396) | 4,630,228 | 55,621 |
| Claims Payable | 196,644 | 243,035 | (196,644) | 243,035 | 3,667 |
| Police and Fire Pension Liability | 681,293 | 0 | (11,258) | 670,035 | 11,741 |
| Capital Leases Payable | 0 | 600,000 | 0 | 600,000 | 293,618 |
| <i>Total Other Governmental Activities</i> | <u>5,224,036</u> | <u>5,327,560</u> | <u>(408,298)</u> | <u>10,143,298</u> | <u>364,647</u> |
| <i>Total Governmental Activities</i> | <u>\$36,618,036</u> | <u>\$5,327,560</u> | <u>(\$1,670,298)</u> | <u>\$40,275,298</u> | <u>\$1,776,647</u> |

General obligation bonds will be paid from the general bond retirement debt service fund. Special assessment bonds will be paid from the proceeds of special assessments levied against benefited property owners. In the event that a property owner would fail to pay the assessment, payment would be made by the City. Compensated absences, claims and capital leases will be paid from the general fund, recreation, street, construction, maintenance and repair and federal nutrition special revenue funds. The police and fire pension liability will be paid from taxes receipted in the police and fire pension special revenue funds. This includes an accrued liability incurred when the State of Ohio established the statewide pension system for police and firefighters.

The \$4,000,000 various improvement note, issued August 26, 2005 at 3.65 percent matures August 25, 2006. The note is backed by the full faith of City of Garfield Heights.

The City's overall legal debt margin was \$19,127,065 at December 31, 2005. Principal and interest requirements to retire long-term obligations outstanding at December 31, 2005 are as follows:

| | General Obligation Bonds | | Special Assessment Bonds | | Police and Fire Pension | |
|-----------|-----------------------------|---------------------|-----------------------------|------------------|----------------------------|------------------|
| | Principal | Interest | Principal | Interest | Principal | Interest |
| 2006 | \$1,306,431 | \$1,434,946 | \$105,569 | \$74,454 | \$11,741 | \$28,353 |
| 2007 | 1,627,196 | 1,366,528 | 102,805 | 68,370 | 12,245 | 27,849 |
| 2008 | 1,715,196 | 1,287,973 | 102,805 | 62,662 | 12,771 | 27,323 |
| 2009 | 1,804,427 | 1,202,090 | 107,575 | 56,051 | 13,320 | 26,775 |
| 2010 | 1,534,191 | 1,114,564 | 116,810 | 49,125 | 13,893 | 26,203 |
| 2011-2015 | 8,623,057 | 4,308,633 | 641,942 | 127,535 | 78,940 | 121,532 |
| 2016-2020 | 6,191,968 | 2,266,795 | 62,028 | 3,474 | 97,413 | 103,058 |
| 2021-2025 | 5,095,000 | 869,050 | 0 | 0 | 120,210 | 80,262 |
| 2026-2030 | 995,000 | 75,250 | 0 | 0 | 148,339 | 52,133 |
| 2031-2035 | 0 | 0 | 0 | 0 | 161,163 | 17,455 |
| Totals | <u>\$28,892,466</u> | <u>\$13,925,829</u> | <u>\$1,239,534</u> | <u>\$441,671</u> | <u>\$670,035</u> | <u>\$510,943</u> |

Note 14 - Jointly Governed Organizations

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

City of Garfield Heights, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2005

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.

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. The City of Garfield Heights did not contribute to NOPEC during 2005. Financial information can be obtained by contacting Joseph Migliorini, the Board Chairman, at 175 South Main Street, Akron, Ohio 44308 or at the website www.nopecinfo.org.

First Suburbs Consortium of Northeast Ohio Council of Governments The City is a member of the First Suburbs Consortium of Northeast Ohio Council of Governments (Council). The Council is a regional council of governments formed under Chapter 167 of the Ohio Revised Code. The Council is currently comprised of 12 communities. The Council was formed to foster cooperation between municipalities in matters of mutual concern, including but not limited to initiation and support of policies and practices which protect, maintain and redevelop mature communities and other matters which affect health, welfare, education, economic conditions and regional development.

The Council is governed by an Assembly made up of one representative from each member community. The representatives then elect the Governing Board made up of a Chair, Vice Chair and other members elected in annual elections. The Board oversees and manages the Council. The degree of control exercised by any participating government is limited to its representation in the Assembly and on the Board. During 2005, the City of Garfield Heights contributed \$3,000 to the First Suburbs Consortium. Financial information can be obtained by contacting First Suburbs Consortium of Northeast Ohio Council of Governments, 40 Severance Circle, Cleveland Heights, Ohio 44118.

Note 15 - Defined Benefit Pension Plans

A. Ohio Public Employees Retirement System

The City participates in the Ohio Public Employees Retirement System (OPERS). OPERS administers three separate pension plans. The traditional plan is a cost-sharing, multiple-employer defined benefit pension plan. The member-directed plan is a defined contribution plan in which the member invests both member and employer contributions (employer contributions vest over five years at 20 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

City of Garfield Heights, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2005

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) 222-6701 or (800) 222-7377.

For the year ended December 31, 2005, the members of all three plans, except those in law enforcement or public safety participating in the traditional plan, were required to contribute 8.5 percent of their annual covered salaries. Members participating in the traditional plan who were in law enforcement contributed 10.1 percent of their annual covered salary; members in public safety contributed 9 percent. The employer contribution rate for pension benefits for 2005 was 9.55 percent, except for those plan members in law enforcement or public safety. For those classifications, the employer's pension contributions were 12.7 percent of covered payroll. The Ohio Revised Code provides statutory authority for member and employer contributions.

The City's required contributions for pension obligations to the traditional and combined plans for the years ended December 31, 2005, 2004, and 2003 were \$619,692, \$597,811, and \$538,151 respectively; 72.00 percent has been contributed for 2005 and 100 percent for 2004 and 2003. Contributions to the member-directed plan for 2005 were \$8,295 made by the City and \$5,203 made by the plan members.

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 benefits while the employer is required to contribute 11.75 percent for police officers and 16.25 percent for firefighters. Contributions are authorized by State statute. The City's contributions to OP&F for police and firefighters were \$476,979 and \$462,838 for the year ended December 31, 2005, \$434,409 and \$436,266 for the year ended December 31, 2004 and \$464,853 and \$446,624 for the year ended December 31, 2003. The full amount has been contributed for 2004 and 2003. 75.47 percent and 73.95 percent has been contributed for 2005.

In addition to current contributions, the City pays installments on the accrued liability incurred when the State of Ohio established the statewide pension system for police and fire fighters in 1967. As of December 31, 2005, the unfunded liability of the City was \$670,035 payable in semi-annual payments through the year 2035. This is an accounting liability of the City which will not vary.

Note 16 – Postemployment Benefits

A. Ohio Public Employees Retirement System

The Ohio Public Employees Retirement System (OPERS) provides postretirement health care coverage to age and service retirees with ten or more years of qualifying Ohio service credit with either the traditional or combined plans. Health care coverage for disability 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

City of Garfield Heights, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2005

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 2005 local government employer contribution rate was 13.55 percent of covered payroll (16.7 percent for public safety and law enforcement); 4 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, 2004, include a rate of return on investments of 8 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 premiums were assumed to increase at the projected wage inflation rate plus an additional factor ranging from 1 to 6 percent annually for the next eight years and 4 percent annually after eight years.

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

The number of active contributing participants in the traditional and combined plans was 376,109. Actual City contributions for 2005 which were used to fund postemployment benefits were \$259,557. 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, 2004, (the latest information available) was \$10.8 billion. The actuarially accrued liability and the unfunded actuarial accrued liability were \$29.5 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. The HCPP restructures OPERS' health care coverage to improve the financial solvency of the fund in response to increasing health care costs. Member and employer contribution rates increased as of January 1, 2006, 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 health care coverage provided by the retirement system is considered an Other Postemployment Benefit (OPEB) as described in *GASB Statement No. 12*. The Ohio Revised Code provides the authority allowing the Ohio Police and Fire Pension Fund's board of trustees to provide health care coverage and states that health care costs paid from the funds of OP&F shall be included in the employer's contribution rate. Health care funding and accounting is on a pay-as-you-go basis. The total police employer contribution rate is 19.5 percent of covered payroll and the total firefighter employer contribution rate is 24 percent of covered payroll, of which 7.75 percent of covered payroll was applied to the postemployment health care program during 2005 and 2004. 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

City of Garfield Heights, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2005

deduction from their monthly benefit payment. Beginning in 2001, all retirees and survivors have monthly health care contributions.

The City's actual contributions for 2005 that were used to fund postemployment health care benefits were \$314,603 for police and \$220,738 for firefighters. The OP&F's total health care expense for the year ended December 31, 2004, (the latest information available) was \$102,173,796, which was net of member contributions of \$55,665,341. The number of OP&F participants eligible to receive health care benefits as of December 31, 2004, was 13,812 for police and 10,528 for firefighters.

Note 17 - 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. During 2005, the City contracted with Clarendon Insurance Company for various types of insurance as follows:

| Type | Coverage |
|---------------------------------|---|
| Property | \$28,312,066 |
| Inland Marine | 2,000,000 |
| Comprehensive General Liability | 1,000,000 per occurrence 3,000,000 aggregate |
| Police Professional Liability | 1,000,000 per occurrence 1,000,000 aggregate |
| Employment Practices | 1,000,000 per occurrence 1,000,000 aggregate |
| Vehicle Liability | 1,000,000 combined |
| Public Officials Liability | 1,000,000 per occurrence 1,000,000 annual |
| Umbrella Liability | 1,000,000 per occurrence |

There has not been a significant reduction in commercial coverage from the prior year and settled claims have not exceeded this coverage in any of the past three years.

The City manages employee health benefits on a self-insured basis. The employee health benefit plan provides basic hospital/medical/surgical plans with deductibles of \$100 per person and \$200 per family, with maximum out of pocket expenses, not including the deductibles, of \$500 per individual or family coverage. Mutual of Ohio reviews all claims which are then paid by the City. An excess coverage insurance (stop-loss) policy covers claims in excess of \$100,000 per employee and an aggregate of \$1,827,242 per year. The benefit is paid by the fund that pays the salary for the employee and is based on historical cost information.

A health benefit claims liability of \$335,891 has been accrued in the general fund, recreation, federal nutrition, street maintenance and repair and municipal court probation services special revenue funds and storm and sewer and municipal court improvement services capital projects funds based on an estimate by the third party administrator. The liability reported at December 31, 2005 is based on the requirements of Governmental Accounting Standards Board Statement No. 30, which requires that a liability for unpaid claims costs, including estimates of costs relating to incurred but not reported claims, be reported. The estimate was not affected by incremental claim adjustment expenses and does not include other allocated or unallocated claim adjustment expense.

City of Garfield Heights, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2005

The City participates in the State Workers' Compensation retrospective rating and payment system. This plan involves the payment of a minimum premium for administrative services and stop-loss coverage plus the actual claim costs for employees injured in 2005. Claims of \$243,035 have been accrued as a liability at December 31, 2005 based on an estimate provided by Comp Management, Inc., the City's third party administrator. Changes in the claims liability amount for health and workers' compensation in 2004 and 2005 were:

| | <u>Balance</u> <u>Beginning of Year</u> | <u>Current</u> <u>Year Claims</u> | <u>Claim</u> <u>Payments</u> | <u>Balance at</u> <u>End of Year</u> |
|------|--|--------------------------------------|---------------------------------|---|
| 2004 | \$367,074 | 1,955,936 | \$1,784,599 | \$538,411 |
| 2005 | 538,411 | 2,169,429 | 2,128,914 | 578,926 |

Note 18 – Subsequent Events

The City has experienced a financial shortfall which has resulted in deficit spending in the general fund and other less significant funds at December 31, 2005. To alleviate the financial shortfall, the City has developed a strategy to stabilize its cash shortfall in the aforementioned funds. In June 2006, the City entered into an agreement to generate \$1,200,000 in additional revenue with the City receiving proceeds from the agreement by the end of 2006.

On August 14, 2006, the City issued a \$4,000,000 Street Improvement Note, an issue in anticipation of the issuance of bonds for the purpose of improving streets within the City including but not limited to reconstruction and rehabilitation of Transportation and Antenucci Boulevard.

On August 14, 2006, the City issued a \$330,000 note, an issue in anticipation of the issuance of bonds for the purpose of paying costs of acquiring and equipping motor vehicles for the City.

On August 14, 2006, the City issued a \$160,000 note, an issue in anticipation of the issuance of bonds for the purpose of improving East 131st Street.

On August 14, 2006, the City issued a \$310,000 note, an issue in anticipation of the issuance of bonds for the purpose of paying the costs of improving the municipal complex.

On August 14, 2006, the City issued a \$100,000 note, an issue in anticipation of the issuance of bonds for the purpose of paying costs of improving and equipping Hathaway Park.

On October 23, 2006, the City issued a \$2,190,000 note, an issue in anticipation of the issuance of bonds for the purpose of paying costs of improving streets within the City.

On October 23, 2006, the City issued a \$250,000 note, an issue in anticipation of the issuance of bonds for the purpose of renovating, improving and equipping the Recreation Center.

On October 23, 2006, the City issued \$3,100,000 in general obligation bonds for the purpose of paying costs of improving streets within the City.

On October 23, 2006, the City issued \$3,400,000 in general obligation refunding bonds for the purpose of refunding at a lower interest cost certain of the City's outstanding various improvement bonds, dated as of July 15, 1996.

City of Garfield Heights, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2005

On October 23, 2006, the City issued \$2,400,000 in general obligation refunding bonds for the purpose of refunding at a lower interest cost certain of the City's outstanding various improvement bonds, dated as of September 1, 1994.



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 Garfield Heights
Cuyahoga County
5407 Turney Road
Garfield Heights, Ohio 44125

To the Members of City Council:

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the City of Garfield Heights, Cuyahoga County, Ohio (the City) as of and for the year ended December 31, 2005, which collectively comprise the City's basic financial statements and have issued our report thereon dated February 28, 2007, wherein we noted the City experienced financial difficulties which resulted in deficit fund balances in the General Fund, and other funds. We also noted the City restated the cash fund balance of the Various Improvement Fund, at January 1, 2005. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the Comptroller General of the United States' *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City's internal control over financial reporting to determine our auditing procedures to express our opinions on the financial statements and not to opine on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the City's ability to record, process, summarize, and report financial data consistent with management's assertions in the financial statements. Reportable conditions are described in the accompanying schedule of findings as items 2005-004 and 2005-005.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts material to the financial statements we audited may occur and not be timely detected by employees when performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered material weaknesses. However, we do not believe the reportable conditions described above are material weaknesses. In a separate letter to the City's management dated February 28, 2007, we reported other matters involving internal control over financial reporting which we did not deem reportable conditions.

Compliance and Other Matters

As part of reasonably assuring whether the City's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could directly and materially affect the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express 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 2005-001 through 2005-003. In a separate letter to the City's management dated February 28, 2007, we reported other matters related to noncompliance we deemed immaterial.

We intend this report solely for the information and use of the management and City Council. It is not intended for anyone other than these specified parties.

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

February 28, 2007

**CITY OF GARFIELD HEIGHTS
CUYAHOGA COUNTY
DECEMBER 31, 2005**

SCHEDULE OF FINDINGS

| |
|--|
| FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS |
|--|

| | |
|-----------------------|-----------------|
| FINDING NUMBER | 2005-001 |
|-----------------------|-----------------|

Expenditures Plus Encumbrances vs. Appropriations – Noncompliance Finding

Ohio Rev. Code Section 5705.41(B) prohibits a subdivision or taxing unit from making expenditures unless they have been properly appropriated. Budgetary expenditures (that is, disbursements and encumbrances) as enacted by the Council may not exceed appropriations at the legal level for all funds. The City's legal level of control is fund, function, and detail object level. The following funds had expenditures in excess of appropriations and expenditures plus encumbrances in excess of appropriations at the legal level of control as of December 31, 2005.

| Fund /Function/Detail Object | Appropriations | Expenditures Plus Encumbrances** | Excess |
|----------------------------------|----------------|--|----------|
| General Fund | | | |
| Security of Persons and Property | | | |
| General Law Enforcement | | | |
| Contractual Services | | | |
| Special Services | \$100,000 | \$127,951 | \$27,951 |
| Materials and Supplies | | | |
| Operating Supplies | 24,000 | 38,606 | 14,606 |
| Security of Persons and Property | | | |
| Fire Prevention | | | |
| Personal Services | | | |
| Dues & Subscription | 2,000 | 2,251 | 251 |
| Hospitalization & Life Insurance | 439,196 | 485,088 | 45,892 |
| Contract Services | | | |
| Special Services | 31,000 | 72,001 | 41,001 |
| Security of Persons and Property | | | |
| Safety Administration | | | |
| Personal Services | | | |
| Pension | 11,650 | 16,621 | 4,971 |
| Hospitalization & Life Insurance | 19,080 | 20,891 | 1,811 |
| Security of Persons and Property | | | |
| Police Communication | | | |
| Personal Services | | | |
| Hospitalization & Life Insurance | 105,176 | 115,096 | 9,920 |
| Security of Persons and Property | | | |
| Animal Control | | | |
| Personal Services | | | |
| Hospitalization & Life Insurance | 9,378 | 10,308 | 930 |
| Contract Services | | | |
| Special Services | 300 | 347 | 47 |

**CITY OF GARFIELD HEIGHTS
CUYAHOGA COUNTY
DECEMBER 31, 2005**

**SCHEDULE OF FINDINGS
(Continued)**

| |
|--|
| FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS |
|--|

| | |
|-----------------------|-----------------|
| FINDING NUMBER | 2005-001 |
|-----------------------|-----------------|

Expenditures Plus Encumbrances vs. Appropriations – Noncompliance Finding (Continued)

| Fund /Function/Detail Object | Appropriations | Expenditures Plus Encumbrances** | Excess |
|------------------------------------|----------------|--|--------|
| General Fund (Continued) | | | |
| Public Health Services | | | |
| Correctional Institution | | | |
| Personal Services | | | |
| Hospitalization & Life Insurance | 57,000 | 62,648 | 5,648 |
| General Government | | | |
| Building Standards and Maintenance | | | |
| Personal Services | | | |
| Hospitalization & Life Insurance | 76,196 | 83,288 | 7,092 |
| Contractual Services | | | |
| Special Services | 12,000 | 29,313 | 17,313 |
| General Government | | | |
| Planning & Zoning | | | |
| Personal Services | | | |
| Advertising | 3,000 | 8,722 | 5,722 |
| Basic Utility Services | | | |
| Sewer Operating | | | |
| Personal Services | | | |
| Hospitalization & Life Insurance | 19,645 | 30,924 | 11,279 |
| General Government | | | |
| Finance | | | |
| Personal Services | | | |
| Training & Education | 1,500 | 2,313 | 813 |
| Contractual Services | | | |
| Special Services | 56,000 | 61,279 | 5,279 |
| General Government | | | |
| Legal Administration | | | |
| Contractual Services | | | |
| Special Services | 37,500 | 77,941 | 40,441 |
| General Government | | | |
| Lands and Building | | | |
| Personal Services | | | |
| Hospitalization & Life Insurance | 122,250 | 134,278 | 12,028 |
| Uniform/Clothing | 5,000 | 7,288 | 2,288 |
| Other | | | |
| Taxes | 11,000 | 12,452 | 1,452 |
| General Government | | | |
| Civil Service Commission | | | |
| Personal Services | | | |
| Salaries & Wages | 4,525 | 5,061 | 536 |
| Pension | 603 | 718 | 115 |
| Contractual Services | | | |
| Special Services | 11,400 | 13,900 | 2,500 |

**CITY OF GARFIELD HEIGHTS
CUYAHOGA COUNTY
DECEMBER 31, 2005**

**SCHEDULE OF FINDINGS
(Continued)**

| |
|--|
| FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS |
|--|

| | |
|-----------------------|-----------------|
| FINDING NUMBER | 2005-001 |
|-----------------------|-----------------|

Expenditures Plus Encumbrances vs. Appropriations – Noncompliance Finding (Continued)

| Fund /Function/Detail Object | Appropriations | Expenditures Plus Encumbrances** | Excess |
|---|----------------|--|---------|
| General Fund (Continued) | | | |
| General Government | | | |
| Miscellaneous | | | |
| Personal Services | | | |
| Dues & Subscriptions | 17,500 | 21,653 | 4,153 |
| Contractual Services | | | |
| Special Services | 210,000 | 304,311 | 94,311 |
| Ambulance Services | 1,100 | 1,206 | 106 |
| Material & Supplies | | | |
| Operating Supplies | 10,000 | 22,496 | 12,496 |
| Other | | | |
| Insurance Claims | 7,000 | 27,094 | 20,094 |
| Election Expense | 0 | 779 | 779 |
| Community Development | | | |
| Economic Development | | | |
| Personal Services | | | |
| Pension | 19,125 | 22,568 | 3,443 |
| Permanent Improvement Fund | | | |
| Security of Persons and Property, Transportation and Leisure Time Activities | | | |
| Permanent Improvement | | | |
| Capital Outlay | | | |
| Equipment Capital Outlay | 600,000 | 773,988 | 173,988 |
| Recreation Fund | | | |
| Leisure Time Activities | | | |
| Recreation Board | | | |
| Personal Services | | | |
| Pension | 130 | 149 | 19 |
| Administrative | | | |
| Personal Services | | | |
| Pension | 60,000 | 68,754 | 8,754 |
| Hospitalization & Life Insurance | 75,500 | 82,881 | 7,381 |
| Contractual Services | | | |
| Special Services | 12,000 | 18,965 | 6,965 |

**CITY OF GARFIELD HEIGHTS
CUYAHOGA COUNTY
DECEMBER 31, 2005**

**SCHEDULE OF FINDINGS
(Continued)**

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

| | |
|-----------------------|-----------------|
| FINDING NUMBER | 2005-001 |
|-----------------------|-----------------|

Expenditures Plus Encumbrances vs. Appropriations - Noncompliance Finding (Continued)

| Fund /Function/Detail Object | Appropriations | Expenditures Plus Encumbrances** | Excess |
|--|----------------|--|--------|
| Recreation Fund (Continued) | | | |
| Leisure Time Activities | | | |
| Swim Golf Tennis | | | |
| Materials & Supplies | | | |
| Operating Supplies | 11,000 | 15,262 | 4,262 |
| Skating | | | |
| Contractual Services | | | |
| Special Services | 12,000 | 24,259 | 12,259 |
| Concessions | | | |
| Materials & Supplies | | | |
| Operating Supplies | 18,000 | 20,650 | 2,650 |
| Street Cleaning Fund | | | |
| Transportation | | | |
| Traffic Control | | | |
| Personal Services | | | |
| Hospitalization & Life Insurance | 28,150 | 37,342 | 9,192 |
| Street Construction | | | |
| Materials & Supplies | | | |
| Operating Supplies | 40,000 | 70,761 | 30,761 |
| City Income Tax Fund | | | |
| General Government | | | |
| Income Tax | | | |
| Contractual Services | | | |
| Special Services | 270,000 | 328,979 | 58,979 |
| Transfers | | | |
| Transfers Elec GF | 6,000 | 37,572 | 31,752 |
| Transfers Elec SCMRF | 480 | 3,006 | 2,526 |
| Transfers Elec RF | 480 | 3,006 | 2,526 |
| Transfers Elec SSF | 480 | 3,006 | 2,526 |
| Transfers Elec SSF | 560 | 3,507 | 2,947 |
| Storm & Sanitary Sewer Fund | | | |
| Capital Outlay | | | |
| Personal Services | | | |
| Hospitalization & Life Insurance | 28,150 | 30,924 | 2,774 |
| Federal Nutrition Fund | | | |
| Public Health Services | | | |
| Personal Services | | | |
| Hospitalization & Life Insurance | 66,320 | 72,677 | 6,357 |
| Contractual Services | | | |
| Special Services | 2,000 | 8,445 | 6,445 |
| Materials & Supplies | | | |
| Operating Supplies | 5,000 | 6,609 | 1,609 |

**CITY OF GARFIELD HEIGHTS
CUYAHOGA COUNTY
DECEMBER 31, 2005**

**SCHEDULE OF FINDINGS
(Continued)**

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

| | |
|-----------------------|-----------------|
| FINDING NUMBER | 2005-001 |
|-----------------------|-----------------|

Expenditures Plus Encumbrances vs. Appropriations – Noncompliance Finding (Continued)

| Fund /Function/Detail Object | Appropriations | Expenditures Plus Encumbrances** | Excess |
|---|----------------|--|--------|
| Municipal Court Probation Service Fund | | | |
| General Government | | | |
| Contractual Services | | | |
| Special Services | 550 | 2,944 | 2,394 |
| Municipal Court Capital Improvement Fund | | | |
| Capital Outlay | | | |
| Personal Services | | | |
| Salaries and Wages | 65,000 | 72,250 | 7,250 |
| Pension | 8,808 | 11,247 | 2,439 |
| Hospitalization and Life Insurance | 9,600 | 10,583 | 983 |
| Revolving Fund | | | |
| General Government | | | |
| Personal Services | | | |
| Salaries & Wages | 237,000 | 291,560 | 54,560 |
| Pension | 32,000 | 42,990 | 10,990 |
| Hospitalization & Life Insurance | 37,500 | 41,232 | 3,732 |
| Uniform/Clothing | 3,000 | 7,706 | 4,706 |
| Contractual Services | | | |
| Special Services | 65,000 | 85,094 | 20,094 |
| Utilities | 80,000 | 100,174 | 20,174 |
| Materials & Supplies | | | |
| Gasoline | 136,500 | 168,884 | 32,384 |
| Diesel Fuel | 34,000 | 56,064 | 22,064 |
| Tires & Tubes | 18,000 | 21,453 | 3,453 |
| Miscellaneous Repair Parts | 60,000 | 129,563 | 69,563 |
| Restricted Fund | | | |
| General Government | | | |
| Transfers | | | |
| Transfers GF | 22,000 | 30,319 | 8,319 |
| Refunds & Reimbursements | 40,000 | 68,365 | 28,365 |

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

** The year end encumbrances are manually compiled by the City in conjunction with its financial statement compilation preparer.

Official's Response:

The City will closely monitor their budgetary statements and pass an amended appropriation at year end and at the point in time during the year when budget adjustments are incurred.

**CITY OF GARFIELD HEIGHTS
CUYAHOGA COUNTY
DECEMBER 31, 2005**

**SCHEDULE OF FINDINGS
(Continued)**

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

| | |
|-----------------------|-----------------|
| FINDING NUMBER | 2005-002 |
|-----------------------|-----------------|

Negative Cash Balances – Noncompliance Finding

Ohio Rev. Code Section 5705.10 (H) requires that money paid into a fund shall be used only for the purposes for which such fund is established. As a result, a negative cash balance indicates that money from one fund was used to cover the expenses of another fund. The following funds had a deficit cash balance as of December 31, 2005.

| | |
|--|-----------|
| General Fund | \$600,112 |
| Special Revenue Funds | |
| Recreation Fund | \$66,439 |
| Street Construction, Maintenance and Repair Fund | \$316,121 |
| Federal Nutrition Fund | \$461,726 |

Additionally, throughout the year, the City had funds with negative cash balances that ranged from \$3,126 to \$1,340,184

We recommend the City review the activities of these funds periodically to ensure that adequate cash balances are maintained and to ensure that monies paid into a fund are used for the purposes for which the fund is established.

Official's Response:

The City will closely monitor their budgetary statements to prevent this from happening in the future.

| | |
|-----------------------|-----------------|
| FINDING NUMBER | 2005-003 |
|-----------------------|-----------------|

Transfers – Noncompliance Finding

Ohio Revised Code Sections 5705.14, 5705.15, and 5705.16 provide guidelines pertaining to allowable inter-fund transfers. In certain circumstances, which are detailed in Ohio Rev. Code Section 5705.14, transfers from funds other than the General Fund may be made by resolution of the taxing authority, passed with a two-thirds affirmative vote. In addition to transfers from the General Fund and those permitted by Ohio Rev. Code Section 5705.14, the taxing authority of any political subdivision, with the approval of the Tax Commissioner and 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 a majority of the governing board. See also 1989 Op. Att'y Gen. No. 89-075 (Ohio Rev. Code Section 5705.14(E) has been interpreted to require a resolution passed by a simple majority when transferring funds from the general revenue fund to specific funds).

**CITY OF GARFIELD HEIGHTS
CUYAHOGA COUNTY
DECEMBER 31, 2005**

**SCHEDULE OF FINDINGS
(Continued)**

| |
|--|
| FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS |
|--|

| | |
|-----------------------|-----------------|
| FINDING NUMBER | 2005-003 |
|-----------------------|-----------------|

Transfers - Noncompliance Finding (Continued)

During the year, the permanent improvement capital projects fund transferred \$74,351 to the street construction, maintenance and repair special revenue fund for repairs to City streets. This illegal transfer has not been reversed. Therefore, in accordance with the foregoing facts, we hereby issue a finding for adjustment against the City's street construction, maintenance and repair special revenue fund, in favor of the City's permanent improvement fund, in the amount of \$74,351. Additionally, during the year, the City's operating procedures did not allow for inter-fund transfers to be approved by City Council as they happened.

The City should make the necessary accounting adjustments to reverse the illegal transfer noted above. The City should also reconsider its current method of accounting for interfund activity to comply with the aforementioned section of the Code and consider the language described in the Auditor of State Bulletin 97-003 to assist in the accounting treatment for inter-fund cash activity.

Official's Response:

We will reverse the effects of the transfer cited in the auditor's report. Also, the City will have Council approve individual resolutions for their transfers. The City will also verify that their transfers are in compliance with the Ohio Revised Code.

| | |
|-----------------------|-----------------|
| FINDING NUMBER | 2005-004 |
|-----------------------|-----------------|

Recording of Encumbrances – Reportable Condition

Although outstanding encumbrances are reported on the City's financial statements, at year end, management does not record encumbrances during the year. The recording of encumbrances serves as a spending control and a measurement tool.

We recommend all purchase commitments be properly and timely encumbered.

Official's Response:

The City will work on including encumbrances on their financial statements throughout the year.

| | |
|-----------------------|-----------------|
| FINDING NUMBER | 2005-005 |
|-----------------------|-----------------|

Method of Accounting for Bond Interest

In August 2004, the City issued \$9,900,000 in Various Purpose Improvement Bonds, Series 2004, to be issued for the purposes of improving certain streets and property in the City, improving the municipal complex and justice center, and acquiring, constructing, equipping and improving recreational facilities.

CITY OF GARFIELD HEIGHTS
CUYAHOGA COUNTY
DECEMBER 31, 2005

SCHEDULE OF FINDINGS
(Continued)

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

FINDING NUMBER

2005-005

Method of Accounting for Bond Interest (Continued)

Proceeds (portion thereof) were eventually retained at US Bank, acting as trustee, for making capitalized interest payments on behalf of the City. The funds were retained in the City's reservation account and drawn down semiannually based on an established interest and administrative fee schedule. The City was not required to send a disbursement request for payments to be made. The trustee handled this automatically. However, because of this method of accounting the City failed to record or budget for the interest expenditures.

The interest expenditures represent payments of public monies and should not only be recorded on the books but should also be budgeted. We recommend the City exercise due professional care in recording both debt proceeds and debt payments, as well as budget for debt payments, within its accounting records.

Official's Response:

The City will exercise due professional care in recording debt proceeds and payments to its accounting records.

**CITY OF GARFIELD HEIGHTS
CUYAHOGA COUNTY
DECEMBER 31, 2005**

SCHEDULE OF PRIOR AUDIT FINDINGS

| Finding Number | Finding Summary | Fully Corrected? | Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; <i>Explain</i> |
|----------------|---|------------------|--|
| 2004-001 | Ohio Rev. Code Section 5705.41 (B), expenditures plus encumbrances in excess of appropriations. | No | Not Corrected. Finance Director feels cuts in state and local funding had partially contributed to not increasing appropriations. Reissued as 2005-001. |
| 2004-002 | Ohio Rev. Code Section 5705.41 (D)(1), certifying the availability of funds. | Yes | |
| 2004-003 | Ohio Rev. Code 5705.10, negative cash fund balances. | No | Not Corrected. Finance Director feels cuts in state and local funding had prevented the City in reducing their negative cash balances. Reissued as 2005-002. |
| 2004-004 | Ohio Rev. Code 9.38, timely deposits of public monies. | Yes | |
| 2004-005 | Recording of encumbrances, management does not record encumbrances during the year. | No | Not Corrected. The City's accounting software does not recognize encumbrances and there are no plans in the immediate future for the City to purchase an upgrade to their existing accounting software system. Reissued as 2005-004. |



Mary Taylor, CPA
Auditor of State

CITY OF GARFIELD 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
JUNE 12, 2007**