



Mary Taylor, CPA  
Auditor of State



**CITY OF GARFIELD HEIGHTS  
CUYAHOGA COUNTY**

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# 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 Council:

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

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the City of Garfield Heights, Cuyahoga County, Ohio, as of December 31, 2006, 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 19 to the financial statements, the City experienced financial difficulties at December 31, 2006. The difficulties have resulted in deficit fund balances in the General Fund of \$1,801,286, and other funds of \$2,068,270. Management's corrective action plan is described in Note 19 to the financial statements. As described in Note 3B to the financial statements, the City restated the January 1, 2006 General Fund balance due to an overstatement of contracts payable. In addition, the City restated January 1, 2006 Governmental Activities net assets due to an overstatement of contracts payable and intergovernmental receivables and an understatement of claims payable.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 26, 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.

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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 cursive script that reads "Mary Taylor".

**Mary Taylor, CPA**  
Auditor of State

October 26, 2007

**City of Garfield Heights, Ohio**  
*Management's Discussion and Analysis*  
*For the Year Ended December 31, 2006*  
*Unaudited*

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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, 2006. The intent of this discussion and analysis is to look at the City's financial performance as a whole. Readers should also review the basic financial statements to enhance their understanding of the City's financial performance.

**Financial Highlights**

Key financial highlights for 2006 were as follows:

- Charges for Services increased by \$67,239 or 1.64 percent over 2005.
- Total Capital Assets decreased by \$559,061 or 1.4 percent over 2005.
- Total Program Revenues decreased by \$353,948 while General Revenues increased \$2,342,216 thus creating an overall increase in Total Revenues of \$1,988,268.
- Municipal Income Taxes increased by \$2,042,691 or 23.55% and Property Taxes increased by \$344,009 or 3.72% over 2005, indicating that the City's economic development pursuits are paying off.
- The total deficit fund balance for all funds under modified accrual accounting decreased to (\$1,814,152) in 2006 from (\$2,306,919) in 2005.

**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 2006?" 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.

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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 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 2006 compared to 2005.

(Table 1)  
Net Assets

	Governmental Activities		
	2006	2005	Change
<b>Assets</b>			
Current and Other Assets	\$21,331,728	\$21,624,754	(\$293,026)
Capital Assets, Net	39,397,090	39,956,151	(559,061)
<i>Total Assets</i>	60,728,818	61,580,905	(852,087)
<b>Liabilities</b>			
Current and Other Liabilities	15,768,263	14,583,603	1,184,660
Long-Term Liabilities:			
Due Within One Year	2,503,290	2,240,793	262,497
Due in More than One Year	38,382,769	38,498,651	(115,882)
<i>Total Liabilities</i>	\$56,654,322	\$55,323,047	\$1,331,275



**City of Garfield Heights, Ohio**  
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(Table 1)  
 Net Assets (continued)

	Governmental Activities		
	2006	2005	Change
<b>Net Assets</b>			
Invested in Capital Assets, Net of Related Debt	\$15,074,577	\$15,124,151	(\$49,574)
Restricted:			
Capital Projects	2,778,074	2,917,888	(139,814)
Debt Service	1,855,667	1,965,600	(109,933)
Street Lighting	131,563	127,248	4,315
Courts	25,581	170,898	(145,317)
Other Purposes	478,516	730,016	(251,500)
Unrestricted	<u>(16,269,482)</u>	<u>(15,356,674)</u>	<u>(912,808)</u>
<i>Total Net Assets</i>	<u><u>\$4,074,496</u></u>	<u><u>\$5,679,127</u></u>	<u><u>(\$1,604,631)</u></u>

Current and other assets decreased by \$293,026 and capital assets (net of depreciation) decreased by \$559,061 thus creating a decrease in total assets of \$852,087. Intergovernmental receivables decreased by \$1,487,229 between 2005 and 2006, due to the City receiving additional OPWC grant monies outstanding in the prior year.

Current and other liabilities increased by \$1,184,660 and long term liabilities increased by \$146,615. The City's investment in capital assets (net of related debt) decreased by \$49,574 from 2005.

The City's governmental activities net assets decreased by \$1,604,631, with unrestricted net assets decreasing by \$912,808. 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.

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Table 2 shows the changes in net assets for the year ended December 31, 2006, as compared to the changes in net assets for 2005.

Table 2  
Changes in Net Assets

	Governmental Activities		Change
	2006	2005	
<b>Revenues</b>			
<b>Program Revenues</b>			
Charges for Services	\$4,163,398	\$4,096,159	\$67,239
Operating Grants and Contributions	1,349,856	1,204,669	145,187
Capital Grants and Contributions	573,492	1,139,866	(566,374)
<b>Total Program Revenues</b>	<b>6,086,746</b>	<b>6,440,694</b>	<b>(353,948)</b>
<b>General Revenues</b>			
Property Taxes	9,581,454	9,237,445	344,009
Municipal Income Taxes	10,714,785	8,672,094	2,042,691
Grants and Entitlements not Restricted to Specific Programs	3,608,132	3,694,159	(86,027)
Investment Earnings	31,415	65,274	(33,859)
Franchise Fees	254,495	241,822	12,673
Miscellaneous	549,159	485,929	63,230
Gain on Sale of Capital Assets	0	501	(501)
<b>Total General Revenues</b>	<b>24,739,440</b>	<b>22,397,224</b>	<b>2,342,216</b>
<b>Total Revenues</b>	<b>30,826,186</b>	<b>28,837,918</b>	<b>1,988,268</b>
<b>Program Expenses</b>			
General Government	9,695,341	9,732,215	(36,874)
Security of Persons and Property	11,934,993	11,873,674	61,319
Public Health Services	679,548	604,497	75,051
Transportation	4,997,993	4,379,460	618,533
Community Development	193,274	181,847	11,427
Basic Utility Services	2,218,971	1,619,837	599,134
Leisure Time Activities	1,152,890	1,940,569	(787,679)
Interest and Fiscal Charges	1,557,807	1,648,608	(90,801)
<b>Total Program Expenses</b>	<b>32,430,817</b>	<b>31,980,707</b>	<b>450,110</b>
<b>Decrease in Net Assets</b>	<b>(1,604,631)</b>	<b>(3,142,789)</b>	<b>1,538,158</b>
Net Assets Beginning of Year (Restated)	5,679,127	8,821,916	(3,142,789)
<b>Net Assets End of Year</b>	<b>\$4,074,496</b>	<b>\$5,679,127</b>	<b>(\$1,604,631)</b>

Program revenues decreased by \$353,948 and general revenues increased by \$2,342,216 thus resulting in an overall increase in total revenues of \$1,988,268. A highlight in the general revenue area was the \$2,042,691 increase in income tax revenues over 2005 figures. Total program expenses over this period increased by \$450,110. A major highlight in the program expense area was the reduction of \$787,679 in Leisure Time Activities expenses. Increases in the Transportation Program of \$618,533, in the Security of Persons and Property Program of \$61,319, in the Basic Utility Services of \$599,134, and Community Development of \$11,427 offset the savings identified above. The net effect of these revenue increases and expense increases was a decrease in net assets of \$1,604,631.

**City of Garfield Heights, Ohio**  
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**Governmental Activities**

Several revenue sources fund our governmental activities. Under the accrual basis of accounting, the City income taxes accounted for \$10,714,785 or 34.76 percent of total revenues; property taxes accounted for \$9,581,454 or 31.10 percent of gross revenues; grants and entitlements accounted for \$3,608,132 or 11.70 percent of total revenues; and charges for services accounted for \$4,163,398 or 13.51 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 36.80 percent of total program expenses; general government expenses which accounted for 29.90 percent; transportation which accounted for 15.41 percent; and basic utility services which accounted for 6.84 percent. Overall, there was an increase in program expenses of \$450,110 from 2005 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 \$32,408,533 and total expenditures of \$41,782,052. The net effect for all government funds was a negative (deficit) fund balance of \$1,814,152, this deficit fund balance is a decrease in the deficit fund balance that the City had at the end of 2005.

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 \$1,801,286 at year end. There were many major factors that resulted in this negative fund balance. Some of these were regulatory changes such as: 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; while other factors include an increase in the general government and security of persons and property programs. 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.

***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.

All recommendations for any budget change, if they are made, 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.

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For the general fund, original and final budgeted revenues were \$21,489,705 and \$21,798,726, respectively, and actual revenue collections were \$21,005,532. The major factor contributing to the decrease of actual revenues under the final budgeted amounts was a decrease in the other revenue category of 812,388. The City of Garfield Heights' ending balance in the General fund was \$1,150,940 below the final budgeted amount, thus resulting in a deficit fund balance of \$1,640,368. 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, 2006  
 (Net of Depreciation)

	Governmental Activities	
	2006	2005
Land	\$1,565,425	1,504,320
Construction in Progress	385,116	2,395,000
Buildings	11,212,204	11,557,738
Improvements other than Buildings	2,673,383	2,777,048
Vehicles	2,336,444	2,426,326
Machinery and Equipment	1,605,245	1,195,088
Furniture and Fixtures	223,726	235,159
Infrastructure	19,395,547	17,865,472
Total	\$39,397,090	\$39,956,151

The most significant increases in Capital Assets were due to the completion of various projects thus resulting in an increase in the infrastructure category of \$1,530,075 and an increase in the Machinery and Equipment category of \$410,157, with a corresponding reduction in the Construction in Progress category of \$2,009,884. There was also a slight increase in land values due to the purchase of a parcel to expand on a park facility. As you can see, all other capital asset classifications, net of depreciation, declined in value. Depreciation charges were the single most influential element to affect this area. See Note 10 for capital asset information.

***Debt Obligations***

At December 31, 2006 the City of Garfield Heights had \$31,686,310 in outstanding general obligation bonds and special assessment bonds. The City's overall legal debt margin at December 31, 2006 was \$23,466,151. Table 4 indicates the total outstanding long-term obligations of the City.

**City of Garfield Heights, Ohio**  
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Table 4  
 Outstanding Notes and Long-Term Obligations at Year End

	Governmental Activities	
	2006	2005
General Obligation Bonds	\$30,488,776	\$28,892,466
Special Assessment Bonds	1,197,534	1,239,534
Notes	2,440,000	4,000,000
Police and Fire Liability	658,293	670,035
Capital Leases	306,382	600,000
Total	\$35,090,985	\$35,402,035

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, during 2006 a portion of this Note Issue was bonded and a new note issued for the balance of projects not then completed, thus resulting in the decrease in the notes identified above. 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.

On November 2, 2006, the City issued \$5,390,000 in general obligation refunding bonds and \$2,790,000 in various purpose bonds at interest rates varying from 3.4 percent to 4.0 percent. Proceeds were used to refund \$5,285,000 of the outstanding 1994 bonds and 1997 bonds.

The police and fire liability shown in Table 4 above, in the amount of \$658,293, 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 20 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 2006, the City completed the reconstruction of two major roads in the I-480/Transportation Business District, with an approximate value of \$2,000,000. 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.

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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 was limited to maintaining the police cruiser rotation of 6-7 new cars a year. In 2005, the City leased to purchase vehicles totaling over \$600,000, and during 2006 the City invested in another \$318,975 worth of vehicles. 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 131<sup>st</sup> Street/Broadway Intersection and the addition of another traffic lane in Broadway Avenue from East 131<sup>st</sup> Street to the I-480 entrance ramp. This improvement will help to spur the development in the Broadway 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.

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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 six multi-million dollar Office/Flex Space facilities in this development district. 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, and the actual development began. Today this new and vibrant retail shopping area is known as the City View Center, and is in full operation. This facility is now the home to many new retail establishments such as WalMart, Circuit City, OfficeMax, Dick's Sporting Goods, Giant Eagle, Starbucks, Joann Fabrics, Bed Bath & Beyond, and many more. The impact of these new businesses in the City is beginning to show through our income tax collections. It has been estimated that this development has helped to retain and/or create between 800 and 1,000 jobs in the City. In addition to the development on this side of I-480, another development group has amassed a block of land, through the buyout of residential housing in the last septic area of the City, on the opposite side of I-480, and has begun the clearing and grading of the land for their project. 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.

### **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.

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**City of Garfield Heights, Ohio**

*Statement of Net Assets*

*December 31, 2006*

	<u>Governmental Activities</u>
<b>Assets</b>	
Equity in Pooled Cash and Cash Equivalents	\$1,249,684
Cash and Cash Equivalents With Fiscal Agents	183
Accounts Receivable	851,595
Intergovernmental Receivable	2,854,370
Prepaid Items	31,701
Materials and Supplies Inventory	62,603
Municipal Income Taxes Receivable	2,465,787
Property Taxes Receivable	12,265,697
Special Assessments Receivable	1,197,534
Deferred Charges	352,574
Nondepreciable Capital Assets	1,950,541
Depreciable Capital Assets, Net	37,446,549
	<hr/>
<i>Total Assets</i>	60,728,818
	<hr/>
<b>Liabilities</b>	
Accounts Payable	378,292
Contracts Payable	784,962
Accrued Wages	418,146
Retainage Payable	30,998
Intergovernmental Payable	991,145
Deferred Revenue	12,203,926
Accrued Interest Payable	141,626
Notes Payable	440,000
Claims Payable	379,168
Long-Term Liabilities:	
Due Within One Year	2,503,292
Due In More Than One Year	38,382,767
	<hr/>
<i>Total Liabilities</i>	56,654,322
	<hr/>
<b>Net Assets</b>	
Invested in Capital Assets, Net of Related Debt	15,074,577
Restricted for:	
Capital Projects	2,778,074
Debt Service	1,855,667
Street Lighting	131,563
Courts	25,581
Other Purposes	478,516
Unrestricted (Deficit)	(16,269,482)
	<hr/>
<i>Total Net Assets</i>	\$4,074,496
	<hr/> <hr/>

See accompanying notes to the basic financial statements

**City of Garfield Heights, Ohio**  
*Statement of Activities*  
For the Year Ended December 31, 2006

	Program Revenues			Net (Expense) Revenue and Changes in Net Assets	
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities
<b>Governmental Activities:</b>					
General Government	\$9,695,341	\$1,839,096	\$0	\$0	(\$7,856,245)
Security of Persons and Property	11,934,993	1,603,305	0	0	(10,331,688)
Public Health Services	679,548	39,957	126	0	(639,465)
Transportation	4,997,993	73,023	1,336,112	203,438	(3,385,420)
Community Development	193,274	25,917	13,618	0	(153,739)
Basic Utility Services	2,218,971	237,615	0	370,054	(1,611,302)
Leisure Time Activities	1,152,890	344,485	0	0	(808,405)
Interest and Fiscal Charges	1,557,807	0	0	0	(1,557,807)
<i>Totals</i>	\$32,430,817	\$4,163,398	\$1,349,856	\$573,492	(26,344,071)

**General Revenues**

Property Taxes Levied for:

General Purposes	6,771,148
Other Purposes	829,128
Debt Service	1,544,795
Capital Outlay	436,383

Municipal Income Tax Levied for:

General Purposes	8,036,724
Other Purposes	1,285,875
Debt Service	750,095
Capital Outlay	642,091

Grants and Entitlements not

Restricted to Specific Programs	3,608,132
Investment Earnings	31,415
Franchise Fees	254,495
Miscellaneous	549,159

*Total General Revenues*

24,739,440

Change in Net Assets

(1,604,631)

*Net Assets Beginning of Year - Restated (See Note 3)*

5,679,127

*Net Assets End of Year*

\$4,074,496

See accompanying notes to the basic financial statements

**City of Garfield Heights, Ohio**

*Balance Sheet*

*Governmental Funds*

*December 31, 2006*

	General	Bond Retirement	Various Improvement	Other Governmental Funds	Total Governmental Funds
<b>Assets</b>					
Equity in Pooled Cash and					
Cash Equivalents	\$0	\$228,524	\$149,805	\$871,355	\$1,249,684
Cash and Cash Equivalents					
With Fiscal Agents	0	0	183	0	183
Accounts Receivable	801,849	0	0	49,746	851,595
Intergovernmental Receivable	1,575,789	86,592	203,438	988,551	2,854,370
Prepaid Items	30,276	0	0	1,425	31,701
Materials and Supplies Inventory	19,788	0	0	42,815	62,603
Interfund Receivable	0	0	2,426,380	0	2,426,380
Municipal Income Taxes Receivable	1,849,341	172,605	0	443,841	2,465,787
Property Taxes Receivable	8,686,946	1,967,204	0	1,611,547	12,265,697
Special Assessments Receivable	0	1,197,534	0	0	1,197,534
<i>Total Assets</i>	<u>\$12,963,989</u>	<u>\$3,652,459</u>	<u>\$2,779,806</u>	<u>\$4,009,280</u>	<u>\$23,405,534</u>
<b>Liabilities</b>					
Accounts Payable	\$198,861	\$0	\$7,594	\$171,837	\$378,292
Contracts Payable	328,285	0	326,356	130,321	784,962
Accrued Wages	350,823	0	0	67,323	418,146
Retainage Payable	0	0	25,502	5,496	30,998
Intergovernmental Payable	451,553	0	0	539,592	991,145
Interfund Payable	1,071,208	0	0	1,355,172	2,426,380
Deferred Revenue	12,054,576	3,371,520	203,438	3,738,610	19,368,144
Accrued Interest Payable	0	0	2,451	0	2,451
Notes Payable	0	0	440,000	0	440,000
Claims Payable	309,969	0	0	69,199	379,168
<i>Total Liabilities</i>	<u>14,765,275</u>	<u>3,371,520</u>	<u>1,005,341</u>	<u>6,077,550</u>	<u>25,219,686</u>
<b>Fund Balances</b>					
Reserved for Encumbrances	106,845	0	165,111	46,261	318,217
Unreserved, Undesignated, Reported in:					
General Fund (Deficit)	(1,908,131)	0	0	0	(1,908,131)
Special Revenue Funds (Deficit)	0	0	0	(1,514,821)	(1,514,821)
Debt Service Funds	0	280,939	0	0	280,939
Capital Projects Funds (Deficit)	0	0	1,609,354	(599,710)	1,009,644
<i>Total Fund Balances (Deficit)</i>	<u>(1,801,286)</u>	<u>280,939</u>	<u>1,774,465</u>	<u>(2,068,270)</u>	<u>(1,814,152)</u>
<i>Total Liabilities and Fund Balances</i>	<u>\$12,963,989</u>	<u>\$3,652,459</u>	<u>\$2,779,806</u>	<u>\$4,009,280</u>	<u>\$23,405,534</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, 2006*

<b>Total Governmental Fund Balances</b>	(\$1,814,152)
 <i>Amounts reported for governmental activities in the statement of net assets are different because</i>	
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.	39,397,090
Other long-term assets are not available to pay for current-period expenditures and therefore are deferred in the funds:	
Property Taxes	1,818,193
Municipal Income Taxes	1,717,006
Intergovernmental	2,431,485
Special Assessments	<u>1,197,534</u>
Total	7,164,218
In the statement of activities, interest is accrued on outstanding bonds, whereas in governmental funds, an interest expenditure is reported when due.	(139,175)
Bond issuance costs are considered deferred charges and will be amortized over the life of the bonds on the statement of net assets.	352,574
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	(30,488,776)
Special Assessment Bonds	(1,197,534)
Capital Leases	(306,382)
Compensated Absences	(4,940,041)
Claims Payable	(1,295,033)
Police and Fire Liability	(658,293)
Notes Payable	<u>(2,000,000)</u>
Total	<u>(40,886,059)</u>
<i>Net Assets of Governmental Activities</i>	<u><u>\$4,074,496</u></u>

**City of Garfield Heights, Ohio**  
*Statement of Revenues, Expenditures and Changes in Fund Balances*  
*Governmental Funds*  
*For the Year Ended December 31, 2006*

	General	Bond Retirement	Various Improvement	Other Governmental Funds	Total Governmental Funds
<b>Revenues</b>					
Property and Other Taxes	\$6,693,406	\$1,530,243	\$0	\$1,253,590	\$9,477,239
Municipal Income Taxes	8,114,613	757,365	0	1,946,659	10,818,637
Special Assessments	0	42,000	0	0	42,000
Charges for Services	2,413,425	0	0	112,179	2,525,604
Fees, Licenses and Permits	273,377	0	0	319,031	592,408
Fines and Forfeitures	566,426	0	0	450,454	1,016,880
Intergovernmental	3,232,396	359,564	1,872,785	1,607,445	7,072,190
Interest	28,327	0	3,088	0	31,415
Rentals	28,506	0	0	0	28,506
Franchise Fees	254,495	0	0	0	254,495
Other	447,920	24,651	0	76,588	549,159
<i>Total Revenues</i>	<u>22,052,891</u>	<u>2,713,823</u>	<u>1,875,873</u>	<u>5,765,946</u>	<u>32,408,533</u>
<b>Expenditures</b>					
Current:					
General Government	8,039,312	316,101	0	378,141	8,733,554
Security of Persons and Property	9,814,906	0	0	1,481,482	11,296,388
Public Health Services	159,402	0	0	474,746	634,148
Transportation	9,177	0	0	1,940,629	1,949,806
Community Development	163,406	0	0	27,045	190,451
Basic Utility Services	1,521,957	0	0	548,152	2,070,109
Leisure Time Activities	0	0	0	1,019,370	1,019,370
Capital Outlay	0	0	2,193,045	1,329,413	3,522,458
Debt Service:					
Principal Retirement	209,438	1,412,000	8,900,000	95,922	10,617,360
Interest and Fiscal Charges	18,605	1,289,691	192,458	35,831	1,536,585
Bond Issuance Costs	0	207,359	4,464	0	211,823
<i>Total Expenditures</i>	<u>19,936,203</u>	<u>3,225,151</u>	<u>11,289,967</u>	<u>7,330,731</u>	<u>41,782,052</u>
<i>Excess of Revenues Over (Under) Expenditures</i>	<u>2,116,688</u>	<u>(511,328)</u>	<u>(9,414,094)</u>	<u>(1,564,785)</u>	<u>(9,373,519)</u>
<b>Other Financing Sources (Uses)</b>					
Notes Issued	0	0	6,900,000	0	6,900,000
Bonds Issued	0	5,390,000	2,790,000	0	8,180,000
Payment to Refunded Bond Escrow Agent	0	(5,351,818)	0	0	(5,351,818)
Premium on Bonds	0	91,000	47,104	0	138,104
Transfers In	0	537,109	194,471	1,627,904	2,359,484
Transfers Out	(1,627,904)	(194,471)	(137,109)	(400,000)	(2,359,484)
<i>Total Other Financing Sources (Uses)</i>	<u>(1,627,904)</u>	<u>471,820</u>	<u>9,794,466</u>	<u>1,227,904</u>	<u>9,866,286</u>
<i>Net Change in Fund Balances</i>	488,784	(39,508)	380,372	(336,881)	492,767
<i>Fund Balances (Deficit) Beginning of Year - Restated (See Note 3)</i>	<u>(2,290,070)</u>	<u>320,447</u>	<u>1,394,093</u>	<u>(1,731,389)</u>	<u>(2,306,919)</u>
<i>Fund Balances (Deficit) End of Year</i>	<u>(\$1,801,286)</u>	<u>\$280,939</u>	<u>\$1,774,465</u>	<u>(\$2,068,270)</u>	<u>(\$1,814,152)</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, 2006*

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**Net Change in Fund Balances - Total Governmental Funds** \$492,767

*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 depreciation exceeded capital outlays in the current period.

Capital Outlay	1,713,511	
Depreciation	<u>(2,272,572)</u>	
		(559,061)

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

Property Taxes	104,215	
Municipal Income Taxes	(103,852)	
Intergovernmental	(1,540,710)	
Special Assessments	<u>(42,000)</u>	
Total		(1,582,347)

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.

Principal Retirement	10,617,360	
Payment to Refunded Bond Escrow Agent	<u>5,351,818</u>	
		15,969,178

In the statement of activities, interest is accrued on outstanding bonds, bond issuance costs and bond premium are amortized over the term of the bonds, whereas in governmental funds, an expenditure is reported when the bonds are issued:

Accrued Interest on Bonds	(11,644)	
Amortization of Bond Issuance Costs	(9,554)	
Amortization of Gain on Refunding	(1,095)	
Amortization of Bond Premium	<u>1,071</u>	
Total		(21,222)

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	(309,813)	
Claims	<u>(587,852)</u>	
		(897,665)

Bond issuance costs are recognized as deferred charges and will be amortized over the life of the bonds on the statement of activities. 211,823

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

Bonds Issued	(8,180,000)	
Notes Issued	(6,900,000)	
Premium on Bonds	<u>(138,104)</u>	
Total		<u>(15,218,104)</u>

*Change in Net Assets of Governmental Activities* (\$1,604,631)

**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, 2006*

	Budgeted Amounts		Actual	Variance with
	Original	Final		Final Budget
				Positive (Negative)
<b>Revenues</b>				
Property and Other Taxes	\$6,627,554	\$6,693,723	\$6,693,406	(\$317)
Municipal Income Taxes	7,427,468	7,574,999	7,610,767	35,768
Charges for Services	1,905,215	1,924,237	1,898,457	(25,780)
Fees, Licenses and Permits	274,499	277,240	277,459	219
Fines and Forfeitures	565,356	571,000	579,213	8,213
Intergovernmental	3,171,331	3,202,993	3,207,250	4,257
Interest	29,703	30,000	28,327	(1,673)
Rentals	29,703	30,000	28,506	(1,494)
Franchise Fees	251,978	254,494	254,495	1
Other	1,206,898	1,240,040	427,652	(812,388)
<i>Total Revenues</i>	<u>21,489,705</u>	<u>21,798,726</u>	<u>21,005,532</u>	<u>(793,194)</u>
<b>Expenditures</b>				
Current:				
General Government	8,470,762	8,164,804	8,473,538	(308,734)
Security of Persons and Property	10,156,408	9,789,566	9,878,596	(89,030)
Public Health Services	185,061	178,377	173,233	5,144
Community Development	171,610	165,412	164,917	495
Basic Utility Services	1,467,499	1,414,494	1,407,166	7,328
<i>Total Expenditures</i>	<u>20,451,340</u>	<u>19,712,653</u>	<u>20,097,450</u>	<u>(384,797)</u>
<i>Excess of Revenues Over Expenditures</i>	1,038,365	2,086,073	908,082	(1,177,991)
<b>Other Financing Sources (Uses)</b>				
Transfers Out	(430,000)	(1,654,955)	(1,627,904)	27,051
<i>Net Change in Fund Balance</i>	608,365	431,118	(719,822)	(1,150,940)
<i>Fund Deficit Beginning of Year</i>	(1,328,874)	(1,328,874)	(1,328,874)	0
Prior Year Encumbrances Appropriated	408,328	408,328	408,328	0
<i>Fund Balance (Deficit) End of Year</i>	<u>(\$312,181)</u>	<u>(\$489,428)</u>	<u>(\$1,640,368)</u>	<u>(\$1,150,940)</u>

See accompanying notes to the basic financial statements

**City of Garfield Heights, Ohio**  
*Statement of Fiduciary Assets and Liabilities*  
*Agency Funds*  
*December 31, 2006*

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	<u>Agency</u>
<b>Assets</b>	
Cash and Cash Equivalents in Segregated Accounts	<u>\$929,625</u>
<b>Liabilities</b>	
Retainage Payable	\$223,739
Due to Others	<u>705,886</u>
<i>Total Liabilities</i>	<u>\$929,625</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, 2006*

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**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 15 to the basic financial statements.

**City of Garfield Heights, Ohio**  
*Notes to the Basic Financial Statements*  
*For the Year Ended December 31, 2006*

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**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 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.

**City of Garfield Heights, Ohio**  
*Notes to the Basic Financial Statements*  
*For the Year Ended December 31, 2006*

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***Governmental Funds***

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

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

**City of Garfield Heights, Ohio**  
*Notes to the Basic Financial Statements*  
*For the Year Ended December 31, 2006*

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

***D. Basis of Accounting***

Basis of accounting determines when transactions are recorded in the financial records and reported on the financial statements. Government-wide financial statements are prepared using the accrual basis of accounting. 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.

**City of Garfield Heights, Ohio**  
*Notes to the Basic Financial Statements*  
*For the Year Ended December 31, 2006*

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Property taxes for which there is an enforceable legal claim as of December 31, 2006, but which were levied to finance year 2007 operations, have been recorded as deferred revenue. Grants and entitlements received before the eligibility requirements are met are also recorded as deferred revenue.

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

***Expenses/Expenditures***

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

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

***E. Budgetary Process***

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

**City of Garfield Heights, Ohio**  
*Notes to the Basic Financial Statements*  
*For the Year Ended December 31, 2006*

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Investment procedures are restricted by the provisions of the Ohio Revised Code. Interest revenue credited to the general fund during 2006 amounted to \$28,327, 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.

***H. Prepaid Items***

Payments made to vendors for services that will benefit periods beyond December 31, 2006 are recorded as prepaid items using the consumption method. 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 back trending (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 does not have a capitalization threshold. 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	10 - 45 years
Improvements Other than Buildings	10 - 45 years
Vehicles	6 - 20 years
Machinery and Equipment	1 - 20 years
Furniture and Fixtures	5 - 20 years
Infrastructure	25 - 50 years

**City of Garfield Heights, Ohio**  
*Notes to the Basic Financial Statements*  
*For the Year Ended December 31, 2006*

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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 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,

**City of Garfield Heights, Ohio**  
*Notes to the Basic Financial Statements*  
*For the Year Ended December 31, 2006*

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grantors or laws or regulations of other governments. The government-wide statement of net assets reports \$5,269,401 of restricted net assets, none of which 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. Internal Activity***

Internal allocations of overhead expenses from one function to another or within the same function are eliminated on the Statement of Activities.

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

***P. Bond Issuance Costs***

On the government-wide financial statements, bond issuance costs are deferred and amortized over the term of the applicable bonds using the effective interest method. Within the governmental fund statements, bond issuance costs are expended when incurred.

***Q. Bond Premium***

On the government-wide financial statements, bond premiums are deferred and amortized over the term of the bonds using the effective interest method. Bond premiums are presented as an increase of the face amount of the bonds payable. On the governmental fund statements, bond premiums are received in the year the bonds are issued.

***R. Gain/Loss on Refunding***

On the government-wide financial statements, the difference between the reacquisition price (funds required to refund the old debt) and the net carrying amount of the old debt, the gain/loss on refunding, is being amortized as a component of interest expense. This deferred amount is amortized over the life of the old or new debt, whichever is shorter, using the effective interest method.

***S. 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.



**City of Garfield Heights, Ohio**  
*Notes to the Basic Financial Statements*  
*For the Year Ended December 31, 2006*

***T. 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 Prior Year Fund Balances/Net Asset**

***A. Change in Accounting Principles***

For 2006, the City has implemented GASB Statement No. 47, "Accounting for Termination Benefits." GASB Statement No. 47 established standards of accounting and financial reporting for termination benefits.

The implementation of GASB Statement No. 47 did not affect the presentation of the financial statements of the City.

***B. Restatement of Fund Balances***

During 2006, it was determined that contracts payables were 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, 2005	(\$2,404,599)	\$320,447	\$1,394,093	(\$1,731,389)	(\$2,421,448)
Contracts Payable	<u>114,529</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>114,529</u>
Adjusted Fund Balances, December 31, 2005	<u><u>(\$2,290,070)</u></u>	<u><u>\$320,447</u></u>	<u><u>\$1,394,093</u></u>	<u><u>(\$1,731,389)</u></u>	<u><u>(\$2,306,919)</u></u>

**City of Garfield Heights, Ohio**  
*Notes to the Basic Financial Statements*  
*For the Year Ended December 31, 2006*

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During 2006, it was determined that intergovernmental receivable was overstated by \$552,858 and long-term claims were understated by \$464,146. These adjustments, along with the adjustments for contracts payable, had the following effect on net assets at December 31, 2005.

	<u>Governmental Activities</u>
Net Assets, December 31, 2005	\$6,581,602
Intergovernmental Receivable	(552,858)
Contracts Payable	114,529
Claims	<u>(464,146)</u>
Adjusted Net Assets, December 31, 2005	<u><u>\$5,679,127</u></u>

**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*  
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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	\$488,784
Net Adjustment for Revenue Accruals	(1,279,635)
Beginning Unrecorded Cash	126,972
Ending Unrecorded Cash	105,304
Net Adjustment for Expenditure Accruals	167,905
Encumbrances	<u>(329,152)</u>
Budget Basis	<u><u>(\$719,822)</u></u>

**Note 5 - Accountability and Compliance**

***A. Accountability***

The following funds had deficit fund balances as of December 31, 2006

<b><i>General Fund</i></b>	\$1,801,286
<b><i>Special Revenue Funds</i></b>	
Police Pension	201,146
Fire Pension	199,696
Recreation	170,792
Street Construction, Maintenance and Repair	647,586
Federal Nutrition	607,253
Community Development	17,674
<b><i>Capital Projects Funds</i></b>	
Permanent Improvement	920,879

The general fund concluded 2006 with a deficit fund balance of \$1,801,286. 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.

***B. Compliance***

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

**City of Garfield Heights, Ohio**  
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Fund	Expenditures Plus Encumbrances	Appropriations	Excess
<b><i>General Fund</i></b>			
General Government			
Safety Administration			
Personal Services			
Pension	\$15,758	\$13,000	\$2,758
Building Standards and Maintenance			
Personal Services			
Pension	77,083	67,500	9,583
Materials and Supplies			
Operating Supplies	5,570	4,988	582
Administration Support			
Materials and Supplies			
Office Supplies	660	500	160
Legal Administration			
Personal Services			
Training and Education	1,190	1,000	190
Materials and Supplies			
Office Supplies	2,275	1,557	718
Operating Supplies	1,989	0	1,989
Court			
Personal Services			
Pensions	96,335	85,335	11,000
Materials and Supplies			
Office Supplies	12,131	10,388	1,743
Operating Supplies	69,244	62,737	6,507
Civil Service Commission			
Personal Services			
Pension	716	620	96
Contractual Services			
Advertising	3,096	2,500	596
Miscellaneous			
Contractual Services			
Ambulance Services	2,731	2,125	606
Materials and Supplies			
Office Supplies	5,638	4,572	1,066
Operating Supplies	56,716	36,614	20,102
Other			
Refunds and Reimbursements	2,067	750	1,317

**City of Garfield Heights, Ohio**  
*Notes to the Basic Financial Statements*  
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Fund	Expenditures Plus Encumbrances	Appropriations	Excess
<b><i>General Fund (continued)</i></b>			
Security of Persons and Property			
Police Department			
General Law Enforcement			
Contractual Services			
Special Services	\$158,798	\$139,887	\$18,911
Community Environment			
Economic Development			
Contractual Services			
Advertising/Printing	690	204	486
Materials and Supplies			
Office Supplies	18	0	18
<b><i>Recreation Fund</i></b>			
Leisure Time Activities			
Administration			
Materials and Supplies			
Office Supplies	1,730	1,500	230
Swim/Golf/Tennis			
Personal Services			
Pension	6,250	1,346	4,904
Skating			
Contractual Services			
Special Services	24,862	20,074	4,788
Community Concerts			
Contractual Services			
Special Services	6,273	5,000	1,273
<b><i>Federal Nutrition Fund</i></b>			
Public Health and Welfare			
Personal Services			
Pension	46,237	41,750	4,487
Contractual Services			
Special Services	19,926	17,076	2,850
Materials and Supplies			
Operating Supplies	7,971	6,426	1,545
<b><i>Municipal Court Special Service Fund</i></b>			
General Government			
Personal Services			
Pension	17,822	16,100	1,722
Dues and Subscriptions	1,902	1,500	402
Contractual Services			
Special Services	20,590	3,765	16,825
<b><i>Municipal Court Capital Improvement Fund</i></b>			
General Government			
Capital Outlay			
Equipment Capital Outlay	71,426	49,112	22,314

**City of Garfield Heights, Ohio**  
*Notes to the Basic Financial Statements*  
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Fund	Expenditures Plus Encumbrances	Appropriations	Excess
<b><i>Various Improvement Fund</i></b>			
General Government			
Capital Outlay			
Equipment Capital Outlay	\$165,111	\$0	\$165,111
<b><i>Transportation/Antenucci Improvement Fund</i></b>			
General Government			
Contractual Services			
Advertising/Printing	269	0	269
<b><i>Revolving Fund</i></b>			
General Government			
Personal Services			
Pension	46,783	39,400	7,383
Materials and Supplies			
Office Supplies	2,147	0	2,147
Operating Supplies	208,530	185,201	23,329
Gasoline	208,764	153,475	55,289
Diesel Fuel	81,184	64,560	16,624
Oil	8,018	5,791	2,227
Tires and Tubes	31,461	24,426	7,035
<b><i>Restricted Fund</i></b>			
General Government			
Contractual Services			
Special Services	12,532	10,561	1,971
Materials and Supplies			
Operating Supplies	58,361	46,350	12,011
Transfers			
Transfers - General Fund	47,627	22,000	25,627

The City had negative cash fund 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	\$1,311,216
Special Revenue Funds	
Recreation	58,192
Street Construction, Maintenance and Repair	401,825
Federal Nutrition	609,945
Community Development	9,193

Additionally, throughout the year, the City had funds with negative cash balances that ranged from \$210 to \$640,368.

The federal nutrition fund and the revolving equipment fund had appropriations in excess of estimated resources, contrary to Ohio Revised Code Section 5705.39.

**City of Garfield Heights, Ohio**  
*Notes to the Basic Financial Statements*  
*For the Year Ended December 31, 2006*

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Contrary to Ohio Revised Code 5705.41 (D) the City failed to certify funds in 14% of transactions tested.

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.

**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.

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.

**City of Garfield Heights, Ohio**  
*Notes to the Basic Financial Statements*  
*For the Year Ended December 31, 2006*

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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.

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, \$2,128,849 of the City's bank balance of \$2,428,849 was uninsured and uncollateralized. Although the securities were held by the pledging financial institutions' trust department and all statutory requirements for the deposit of money had been followed, noncompliance with Federal requirements could potentially subject the City to a successful claim by the Federal Deposit Insurance Corporation.

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, 2006.

### ***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, 2006 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 \$1,088,451 in the bond retirement fund. At December 31, 2006 the amount of delinquent special assessments was \$81,923.



**City of Garfield Heights, Ohio**  
*Notes to the Basic Financial Statements*  
*For the Year Ended December 31, 2006*

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**A. Property Taxes**

Property taxes include amounts levied against all real, public utility and tangible personal property located in the City. Property tax revenue received during 2006 for real and public utility property taxes represents collections of the 2005 taxes. Property tax payments received during 2006 for tangible personal property (other than public utility property) are for 2006 taxes.

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

Real property taxes are payable annually or semi-annually. If paid annually, 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.

Public utility tangible personal property currently is assessed at varying percentages of true value; public utility real property is assessed at 35 percent of true value. 2006 public utility property taxes which became a lien December 31, 2005, are levied after October 1, 2006, and are collected in 2007 with real property taxes.

2006 tangible personal property taxes are levied after October 1, 2005, on the value as of December 31, 2005. Collections are made in 2006. Tangible personal property assessments are being phased out – the assessment percentage for all property including inventory for 2006 is 18.75 percent. This will be reduced to 12.5 percent for 2007, 6.25 percent for 2008 and zero for 2009. Payments by multi-county taxpayers are due September 20. Single county taxpayers may be annually or semi-annually. If paid annually, payment is due April 30; if paid semi-annually, the first payment is due April 30, with the remainder payable September 20.

The full tax rate for all City operations for the year ended December 31, 2006 was \$21.90 per \$1,000 of assessed value. The assessed values of real and tangible personal property upon which 2006 property tax receipts were based are as follows:

Real Property	\$391,283,770
Public Utility Real Property	103,536,410
Public Utility Tangible Property	19,324,250
Tangible Personal Property	<u>20,274,506</u>
	<u><u>\$534,418,936</u></u>

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, public utility taxes and outstanding delinquencies which are measurable as of December 31, 2006 and for which there is an enforceable legal claim. In the general fund; street lighting, police pension, fire pension and recreation special revenue funds; general obligation bond debt service fund and the permanent improvement capital projects fund, the entire receivable has been offset by deferred revenue since the current taxes were not levied to finance 2006 operations and the collection of delinquent taxes during the available period is not subject to reasonable estimation. On a full accrual basis, delinquent property taxes have been recorded as revenue while the remainder of the receivable is deferred.

**City of Garfield Heights, Ohio**  
*Notes to the Basic Financial Statements*  
*For the Year Ended December 31, 2006*

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***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.

***C. Intergovernmental Receivables***

A summary of the principal items of intergovernmental receivables follows:

	<u>Amount</u>
Grants	\$490,486
Local Government	996,211
Homestead and Rollback	535,697
Gas Tax	536,576
Motor Vehicle License	93,272
Estate Tax	100,504
Public Utilities Reimbursement	40,365
Prisoner Rebills Reimbursement	9,900
City of Bedford	12,840
Prisoner Housing	28,300
Liquor Permit Fees	7,538
Immobilization Fees	1,700
Hotel Tax	904
Cigarette Tax	<u>77</u>
<i>Total Intergovernmental Receivables</i>	<u><u>\$2,854,370</u></u>

**Note 9 - Capital Leases**

In prior years, the City entered into a lease for a fire engine and other 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 \$933,565, the present value of the minimum lease payments at the inception of the lease. The book value of the vehicles as of December 31, 2006 was \$752,547.

**City of Garfield Heights, Ohio**  
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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, 2006.

	Amounts
2007	\$319,700
Less: Amount representing Interest	(13,318)
Present Value of Minimum Lease Payments	\$306,382

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.

**Note 10 - Capital Assets**

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

	Balance 12/31/05	Additions	Deductions	Balance 12/31/06
<b>Governmental Activities</b>				
<i>Capital Assets, Not Being Depreciated</i>				
Land	\$1,504,320	\$61,105	\$0	\$1,565,425
Construction in Progress	2,395,000	196,667	(2,206,551)	385,116
<i>Total Capital Assets, Not Being Depreciated</i>	3,899,320	257,772	(2,206,551)	1,950,541
 <i>Capital Assets, Being Depreciated</i>				
Buildings	15,820,113	0	0	15,820,113
Improvements Other than Buildings	4,428,063	28,515	0	4,456,578
Vehicles	4,835,140	318,975	0	5,154,115
Machinery and Equipment	3,890,421	703,349	0	4,593,770
Furniture and Fixtures	660,842	18,916	0	679,758
Infrastructure				
Roads	22,314,328	2,592,535	0	24,906,863
Sanitary Sewers	3,578,655	0	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>	57,850,674	3,662,290	0	61,512,964

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	Balance 12/31/05	Additions	Deductions	Balance 12/31/06
<b><i>Less Accumulated Depreciation</i></b>				
Buildings	(4,262,375)	(345,534)	0	(4,607,909)
Improvements Other than Buildings	(1,651,015)	(132,180)	0	(1,783,195)
Vehicles	(2,408,814)	(408,857)	0	(2,817,671)
Machinery and Equipment	(2,695,333)	(293,192)	0	(2,988,525)
Furniture and Fixtures	(425,683)	(30,349)	0	(456,032)
Infrastructure				
Roads	(9,233,129)	(944,424)	0	(10,177,553)
Sanitary Sewers	(708,653)	(71,573)	0	(780,226)
Storm Sewers	(300,590)	(33,230)	0	(333,820)
Water Supply Lines	(108,251)	(13,233)	0	(121,484)
<b><i>Total Accumulated Depreciation</i></b>	<b>(21,793,843)</b>	<b>(2,272,572) *</b>	<b>0</b>	<b>(24,066,415)</b>
<b><i>Total Capital Assets being Depreciated, Net</i></b>	<b>36,056,831</b>	<b>1,389,718</b>	<b>0</b>	<b>37,446,549</b>
<b><i>Capital Assets, Net</i></b>	<b>\$39,956,151</b>	<b>\$1,647,490</b>	<b>(\$2,206,551)</b>	<b>\$39,397,090</b>

\* Depreciation expense was charged to governmental functions as follows:

General Government	\$462,114
Security of Persons and Property	395,146
Public Health Services	50,855
Transportation	1,101,885
Community Development	99
Basic Utility Services	139,945
Leisure Time Activities	122,528
<b>Total Depreciation Expense</b>	<b>\$2,272,572</b>

**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

**City of Garfield Heights, Ohio**  
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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	Bond Retirement	Various Improvement	Other Governmental Funds	
Bond Retirement	\$0	\$0	\$137,109	\$400,000	\$537,109
Various Improvement	0	194,471	0	0	194,471
Other Governmental Funds	1,627,904	0	0	0	1,627,904
<b>Totals</b>	<b>\$1,627,904</b>	<b>\$194,471</b>	<b>\$137,109</b>	<b>\$400,000</b>	<b>\$2,359,484</b>

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 2006 the general fund transferred out \$1,627,904 to various other governmental funds. Of this total \$647,862 was transferred to the police pension fund and \$550,042 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 \$355,000 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 \$137,109 to the bond retirement debt service fund to pay capitalized interest on the bond issue. The bond retirement transferred \$194,471 to the various improvement capital project fund to cover the payment of the notes.

The municipal vehicle license tax special revenue fund and the storm and sanitary sewer capital projects fund transferred \$180,000 and \$220,000, respectively, to the bond retirement debt service fund to cover their portion of bond retirement.

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**B. Interfund Balances**

Interfund Payable	Interfund Receivable
	Various Improvement
General	\$1,071,208
Other Governmental Funds:	
Recreation	58,192
Street Construction, Maintenance and Repair	476,176
Federal Nutrition	536,611
Community Development	9,193
Permanent Improvement	275,000
Totals	\$2,426,380

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.

**Note 13 - Long-Term Obligations**

Changes in long-term obligations of the City during the year ended December 31, 2006 were as follows:

	Outstanding 12/31/2005	Additions	Reductions	Outstanding 12/31/2006	Amounts Due in One Year
<b>Governmental Activities</b>					
<b>General Obligation Bonds</b>					
1986 9.25% \$1,450,000					
Street Improvement	\$75,000	\$0	(\$75,000)	\$0	\$0
1994 4.05%-6.3% \$3,800,000					
Various Purpose Improvement	2,050,000	0	(2,050,000)	0	0
1996 4.7%-6.625% \$810,000					
Various Purpose - Canal Warner	25,559	0	(25,559)	0	0
1996 4.7%-6.625% \$610,000					
Various Purpose - Sunset	61,907	0	(61,907)	0	0
1996 4.7%-6.625% \$3,190,000					
Various Purpose - Streets	2,360,000	0	(2,360,000)	0	0
1998 3.65%-4.6% \$2,645,000					
Justice Center Refunding	1,230,000	0	(290,000)	940,000	300,000
1998 3.65%-4.6% \$3,775,000					
Civic Center Refunding	2,885,000	0	(210,000)	2,675,000	220,000
1998 3.6%-4.6% \$4,460,000					
Various Improvements	3,305,000	0	(195,000)	3,110,000	200,000
2002 1.09%-5.55% \$7,300,000					
Various Improvements	7,000,000	0	(190,000)	6,810,000	195,000
2004 4.75% \$9,900,000					
Various Improvements	8,706,127	0	0	8,706,127	350,000
Transportation-Antennucci proceeds	1,193,873	0	0	1,193,873	0

**City of Garfield Heights, Ohio**  
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	Outstanding 12/31/2005	Additions	Reductions	Outstanding 12/31/2006	Amounts Due in One Year
2006 4.00% \$1,885,000					
Various Purpose Improvement Refunding Bonds	\$0	\$1,885,000	\$0	\$1,885,000	\$200,000
2006 4.00% \$2,307,466					
Various Purpose Refunding Bonds	0	2,307,466	0	2,307,466	195,917
2006 4.00% \$2,790,000					
Street Improvement	0	2,790,000	0	2,790,000	0
Unamortized Premium	0	138,104	(1,071)	137,033	0
Unamortized Amount on Refunding	0	(66,818)	1,095	(65,723)	0
<b>Total General Obligation Bonds</b>	<b>28,892,466</b>	<b>7,053,752</b>	<b>(5,457,442)</b>	<b>30,488,776</b>	<b>1,660,917</b>
<b>Special Assessment Bonds</b>					
1986 7.75% \$230,000					
Johnston Rockside Improvement	12,000	0	(12,000)	0	0
1994 4.05%-6.3% \$606,000					
Neo Parkway Improvement	355,000	0	(355,000)	0	0
1996 4.7%-6.625% \$810,000					
Various Purpose - Canal Warner	529,441	0	(529,441)	0	0
1996 4.7%-6.625% \$610,000					
Various Purpose - Sunset	343,093	0	(343,093)	0	0
2006 4.00% \$325,000					
Various Purpose Improvement Refunding Bonds	0	325,000	0	325,000	35,000
2006 4.00% \$872,534					
Various Purpose Refunding Bonds	0	872,534	0	872,534	74,083
<b>Total Special Assessment Bonds</b>	<b>1,239,534</b>	<b>1,197,534</b>	<b>(1,239,534)</b>	<b>1,197,534</b>	<b>109,083</b>
<b>Other Governmental Activities</b>					
<b>Notes Payable</b>					
2005 Various Improvement; 3.65%	4,000,000	4,000,000	(8,000,000)	0	0
2006 Various Improvement; 4.47%	0	900,000	(900,000)	0	0
2006 Various Improvement; 4.47%	0	2,000,000	0	2,000,000	0
<b>Total Notes Payable</b>	<b>4,000,000</b>	<b>6,900,000</b>	<b>(8,900,000)</b>	<b>2,000,000</b>	<b>0</b>
Compensated Absences Payable	4,630,228	370,204	(60,391)	4,940,041	53,773
Claims Payable	707,181	830,887	(243,035)	1,295,033	360,892
Police and Fire Pension Liability	670,035	0	(11,742)	658,293	12,243
Capital Leases Payable	600,000	0	(293,618)	306,382	306,382
<b>Total Other Governmental Activities</b>	<b>10,607,444</b>	<b>8,101,091</b>	<b>(9,508,786)</b>	<b>9,199,749</b>	<b>733,290</b>
<b>Total Governmental Activities</b>	<b>\$40,739,444</b>	<b>\$16,352,377</b>	<b>(\$16,205,762)</b>	<b>\$40,886,059</b>	<b>\$2,503,290</b>

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 received 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 City issued \$900,000 in various purpose notes on August 23, 2006. \$640,000 of the notes were rolled into bonds that were issued on November 1, 2006, and the remaining \$260,000 was rolled into the

**City of Garfield Heights, Ohio**  
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\$2,190,000 notes. \$2,070,000 of the \$4,000,000 various improvement notes were rolled into the \$2,790,000 bonds that were issued on November 1, 2006, and the remaining \$1,930,000 were rolled into the \$2,190,000 notes. The \$2,190,000 notes and the \$250,000 notes were issued on November 15, 2006 and mature on November 15, 2007. The notes are backed by the full faith of City of Garfield Heights.

The City's overall legal debt margin was \$23,466,157 at December 31, 2006. Principal and interest requirements to retire long-term obligations outstanding at December 31, 2006 are as follows:

	General Obligation Bonds		Special Assessment Bonds		Police and Fire Pension	
	Principal	Interest	Principal	Interest	Principal	Interest
2007	\$1,660,917	\$1,399,773	\$109,083	\$56,665	\$12,243	\$27,849
2008	1,879,796	1,313,690	113,204	50,035	12,772	27,323
2009	1,966,052	1,230,953	115,948	44,789	13,320	26,775
2010	1,702,308	1,147,268	123,692	39,434	13,893	26,203
2011	1,775,564	1,073,984	126,436	33,566	14,489	25,606
2012-2016	9,554,829	4,121,208	609,171	73,822	82,331	118,141
2017-2021	6,611,000	2,139,880	0	0	101,596	98,874
2022-2026	4,757,000	646,340	0	0	125,373	75,099
2027-2031	510,000	25,500	0	0	154,711	45,761
2031-2035	0	0	0	0	127,565	10,959
Totals	<u>\$30,417,466</u>	<u>\$13,098,596</u>	<u>\$1,197,534</u>	<u>\$298,311</u>	<u>\$658,293</u>	<u>\$482,590</u>

**Refunded Bonds**

On November 2, 2006, the City issued \$5,390,000 in general obligation refunding bonds and \$2,790,000 in various purpose bonds at an interest rate of 4.0 percent. Proceeds were used to refund \$5,285,000 of the outstanding 1994 bonds and 1996 bonds as follows:

	Governmental Activities				Total
	1994 General Obligation Bonds	1994 Special Assessment Bonds	1996 General Obligation Bonds	1996 Special Assessment Bonds	
Outstanding at December 31,2005	\$2,050,000	\$355,000	\$2,447,466	\$872,534	\$5,725,000
Amount Refunded	(1,870,000)	(325,000)	(2,281,035)	(808,965)	(5,285,000)
Non-Refunded Portion	180,000	30,000	166,431	63,569	440,000
Principal Payment of Non-Refunded Portion	(180,000)	(30,000)	(166,431)	(63,569)	(440,000)
Outstanding at December 31,2006	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>

The bonds were sold at a premium of \$138,104. Proceeds of \$5,351,818 (after underwriting fees and other insurance costs) were deposited in an irrevocable trust with an escrow agent to provide for all future debt payments on the refunded 1994 and 1996 general obligation and special assessment bonds. As a result, \$5,285,000 of these bonds were considered defeased and the liability for the refunded bonds has been removed from the basic financial statements.

The refunding resulted in a difference between the acquisition price and the net carrying amount of the old debt of \$66,818. This difference, reported as a deduction from bonds payable, is being charged to interest through fiscal year 2022. The City completed the refunding to reduce its total debt service payments over the next 20 years by \$458,438 and to obtain an economic gain (difference between the present values of the old and new debt service payments) of \$392,309.



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**Note 14 – Note Debt**

A summary of note transactions for the year ended December 31, 2006 follows:

	Balance 12/31/05	Additions	Deletions	Balance 12/31/06
<b>Various Improvements Fund</b>				
2006 4.47% Various Purpose	\$0	\$440,000	\$0	\$440,000

The notes are backed by the full faith and credit of the City of Garfield Heights and mature within one year. The maturity date for the note is November 15, 2007. The note liability is reflected in the funds which received the proceeds. All note proceeds have been fully expended.

**Note 15 - 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 an aggregation program for the purchase of electricity. NOPEC is currently comprised of 118 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 2006. 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](http://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 2006, 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.

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**Note 16 - Defined Benefit Pension Plans**

***A. Ohio Public Employees Retirement System***

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

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

For the year ended December 31, 2006, the members of all three plans, except those in law enforcement or public safety participating in the traditional plan, were required to contribute 9 percent of their annual covered salaries. Members participating in the traditional plan who were in law enforcement contributed 10.1 percent of their annual covered salary. The City's contribution rate for pension benefits for 2006 was 13.7 percent, except for those plan members in law enforcement or public safety. For those classifications, the City's pension contributions were 16.93 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, 2006, 2005, and 2004 were \$639,038, \$619,692 and \$597,811, respectively; 69 percent has been contributed for 2006 and 100 percent for 2005 and 2004. Contributions to the member-directed plan for 2006 were \$9,395 made by the City and \$6,172 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 obligations while the City is required to contribute 19.5 percent for police officers and 24 percent for firefighters. Contributions are authorized by State statute. The City's contributions to the Fund for police and firefighters were \$491,688 and \$479,993 for the year ended December 31, 2006, \$476,979 and \$462,838 for the year ended December 31, 2005 and \$434,409 and \$436,266 for the year ended

**City of Garfield Heights, Ohio**  
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*For the Year Ended December 31, 2006*

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December 31, 2004. The full amount has been contributed for 2005 and 2004. 75.4 percent and 71.8 percent, respectively, have been contributed for 2006.

**Note 17 – Postemployment Benefits**

***A. Ohio Public Employees Retirement System***

The Ohio Public Employees Retirement System (OPERS) provides postretirement health care coverage to age and service retirees with ten or more years of qualifying Ohio service credit with either the traditional or combined plans. Health care coverage for disability recipients and qualified survivor benefit recipients is available. Members of the member-directed plan do not qualify for postretirement health care coverage. A portion of each employer's contribution to the traditional or combined plans is set aside for the funding of postretirement health care based on authority granted by State statute. The 2006 local government employer contribution rate was 13.7 percent of covered payroll (16.93 percent for public safety and law enforcement); 4.50 percent of covered payroll was the portion that was used to fund health care.

Benefits are advance-funded using the individual entry age actuarial cost method. Significant actuarial assumptions, based on OPERS's latest actuarial review performed as of December 31, 2005, include a rate of return on investments of 6.50 percent, an annual increase in active employee total payroll of 4.00 percent compounded annually (assuming no change in the number of active employees) and an additional increase in total payroll of between .50 percent and 6.3 percent based on additional annual pay increases. Health care costs were assumed to increase between .50 and 6.00 percent annually for the next nine years and 4.00 percent annually after nine years.

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

The number of active contributing participants in the traditional and combined plans was 369,214. The number of active contributing participants for both plans used in the December 31, 2005, actuarial valuation was 358,804. Actual employer contributions for 2006 which were used to fund postemployment benefits were \$267,660. The actual contribution and the actuarially required contribution amounts are the same. OPERS's net assets available for payment of benefits at December 31, 2005, (the latest information available) were \$11.1 billion. The actuarially accrued liability and the unfunded actuarial accrued liability were \$31.3 billion and \$20.2 billion, respectively.

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

***B. Ohio Police and Fire Pension Fund***

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

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*For the Year Ended December 31, 2006*

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

The City's actual contributions for 2006 that were used to fund postemployment benefits were \$324,305 for police and \$228,920 for firefighters. The OP&F's total health care expense for the year ended December 31, 2005, (the latest information available) was \$108,039,449, which was net of member contributions of \$55,271,881. The number of OP&F participants eligible to receive health care benefits as of December 31, 2005, was 13,922 for police and 10,537 for firefighters.

**Note 18 - Risk Management**

The City is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During 2006, the City contracted with Clarendon Insurance Company for various types of insurance as follows:

Type	Coverage
Property	\$29,323,643
Inland Marine	1,471,921
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	5,000,000 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. Medical 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 \$2,152,292 per year. The benefit is paid by the fund that pays the salary for the employee and is based on historical cost information.

**City of Garfield Heights, Ohio**  
*Notes to the Basic Financial Statements*  
*For the Year Ended December 31, 2006*

A health benefit claims liability of \$379,168 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, 2006 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.

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 2006. The maintenance of these benefits is accounted for in the general fund. Claims of \$1,295,033 have been accrued as a liability at December 31, 2006 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 2005 and 2006 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>
2005	\$538,411	2,633,575	\$2,128,914	\$1,043,072
2006	1,043,072	3,307,747	2,676,618	1,674,201

**Note 19 – Financial Difficulties and 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, 2006. 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 for the City. The City passed two pieces of legislation with Clear Channel Communications, Inc. to erect two billboards along Interstate I-480 at \$600,000 each. Although some technical difficulties have precluded the receipt of these funds to date, the City has worked through the difficulties and it now seems apparent that at least half of these funds should be received by December 31, 2007, with the remainder being received in 2008. Additionally, during 2007, in order to further alleviate this deficit situation the City has repositioned its Income Tax distribution so that approximately \$690,000 of this revenue went as a direct offset to the deficit balance. The City adopted a balanced budget for the succeeding fiscal year.

On June 28, 2007, the City issued \$1,135,000 in notes, with an interest rate of 4.28 percent, for the purpose of paying costs of acquiring and equipping motor vehicles for the City. The notes mature on June 28, 2008.

On June 28, 2007, the City issued \$1,050,000 in notes, with an interest rate of 4.28 percent, for the purpose of renovating, improving and equipping the Recreation Center. The notes mature on June 28, 2008.

On September 29, 2007 the City issued \$1,225,000 in notes with a maturity date of September 27, 2008 and interest rate of 3.97 percent.

On November 15, 2007 the City retired \$440,000 in notes and reissued \$2,000,000 in notes with a maturity date of November 15, 2008 and interest rate of 3.79 percent.

**City of Garfield Heights, Ohio**  
*Notes to the Basic Financial Statements*  
*For the Year Ended December 31, 2006*

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# 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 Council:

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of City of Garfield Heights, Cuyahoga County, (the City) as of and for the year ended December 31, 2006, which collectively comprise the City's basic financial statements and have issued our report thereon dated October 26, 2007, wherein we noted the City experienced financial difficulties. We also noted the City restated the January 1, 2006 General Fund balance due to an overstatement of contracts payable. In addition, the City restated January 1, 2006 Governmental Activities net assets due to an overstatement of contracts payable and intergovernmental receivables and an understatement of claims payable. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the Comptroller General of the United States' *Government Auditing Standards*.

#### **Internal Control Over Financial Reporting**

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

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

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

We consider the following deficiency described in the accompanying schedule of findings to be a significant deficiency in internal control over financial reporting: 2006-001.

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

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

We also noted certain internal control matters that we reported to the City's management in a separate letter dated October 26, 2007.

#### **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 2006-002 through 2006-005.

We also noted certain noncompliance or other matters not requiring inclusion in this report that we reported to the City's management in a separate letter dated October 26, 2007.

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

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



**Mary Taylor, CPA**  
Auditor of State

October 26, 2007



**CITY OF GARFIELD HEIGHTS  
CUYAHOGA COUNTY  
DECEMBER 31, 2006**

**SCHEDULE OF FINDINGS**

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

<b>FINDING NUMBER</b>	<b>2006-001</b>
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**Recording of Encumbrances – Significant Deficiency**

Although outstanding encumbrances are reported on the City’s financial statements, at year end, management does not record encumbrances during the year. The year end encumbrances are manually compiled by the City in conjunction with its financial statement compilation preparer.

The recording of encumbrances serves as a spending control and a measurement tool. Failure to record encumbrances throughout the year could result in the City making expenditures in excess of appropriations as well as inaccurate reporting of encumbrances on the year end financial statements.

We recommend all purchase commitments be properly and timely encumbered. In addition, those encumbrances should be recorded in the City’s accounting records at the time they are encumbered.

**Official’s Response:**

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

<b>FINDING NUMBER</b>	<b>2006-002</b>
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**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, 2006.

Fund/Function/Detail Object	Appropriations	Expenditures Plus Encumbrances**	Excess
<b>General Fund</b>			
Security of Persons and Property			
Police Department			
General Law Enforcement			
Contractual Services			
Special Services	139,887	158,798	(18,911)
General Government			
Safety Administration			
Personal Services			
Pension	13,000	15,758	(2,758)

CITY OF GARFIELD HEIGHTS  
 CUYAHOGA COUNTY  
 DECEMBER 31, 2006

SCHEDULE OF FINDINGS

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

<b>FINDING NUMBER</b>	<b>2006-002</b>
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**Expenditures Plus Encumbrances vs. Appropriations – Noncompliance Finding (Continued)**

Fund/Function/Detail Object	Appropriations	Expenditures Plus Encumbrances**	Excess
<b>General Fund (Continued)</b>			
General Government			
Building Standards and Maintenance			
Personal Services			
Pension	67,500	77,083	(9,583)
Materials and Supplies			
Operating Supplies	4,988	5,570	(582)
General Government			
Administration Support			
Materials and Supplies			
Office Supplies	500	660	(160)
General Government			
Legal Administration			
Personal Services			
Training and Education	1,000	1,190	(190)
Materials and Supplies			
Office Supplies	1,557	2,275	(718)
Operating Supplies	0	1,989	(1,989)
General Government			
Court			
Personal Services			
Pension	85,335	96,335	(11,000)
Materials and Supplies			
Office Supplies	10,388	12,131	(1,743)
Operating Supplies	62,737	69,244	(6,507)
Civil Service Commission			
Personal Services			
Pension	620	716	(96)
Contractual Services			
Advertising/Printing	2,500	3,096	(596)

CITY OF GARFIELD HEIGHTS  
 CUYAHOGA COUNTY  
 DECEMBER 31, 2006

SCHEDULE OF FINDINGS

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

**FINDING NUMBER** **2006-002**

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

Fund/Function/Detail Object	Appropriations	Expenditures Plus Encumbrances**	Excess
<b>General Fund (Continued)</b>			
General Government			
Miscellaneous			
Contractual Services			
Ambulance Service Charge	2,125	2,731	(606)
Materials and Supplies			
Office Supplies	4,572	5,638	(1,066)
Operating Supplies	36,614	56,716	(20,102)
Other			
Refunds and Reimbursements	750	2,067	(1,317)
Community Environment			
Economic Development			
Contractual Services			
Advertising/Printing	204	690	(486)
Materials and Supplies			
Office Supplies	0	18	(18)
<b>Recreation Fund</b>			
Leisure Time Activities			
Administration			
Materials and Supplies			
Office Supplies	1,500	1,730	(230)
Leisure Time Activities			
Swim, Golf, Tennis			
Personal Services			
Pension	1,346	6,250	(4,904)
Leisure Time Activities			
Skating			
Contractual Services			
Special Services	20,074	24,862	(4,788)
Leisure Time Activities			
Community Concerts			
Contractual Services			
Special Services	5,000	6,273	(1,273)

CITY OF GARFIELD HEIGHTS  
 CUYAHOGA COUNTY  
 DECEMBER 31, 2006

SCHEDULE OF FINDINGS

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

**FINDING NUMBER** **2006-002**

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

Fund/Function/Detail Object	Appropriations	Expenditures Plus Encumbrances**	Excess
<b>Federal Nutrition Budget Program Fund</b>			
Public Health and Welfare			
Personal Services			
Pension	41,750	46,237	(4,487)
Contractual Services			
Special Services	17,076	19,926	(2,850)
Materials and Supplies			
Operating Supplies	6,426	7,971	(1,545)
<b>Municipal Court Special Service Fund</b>			
General Government			
Personal Services			
Pension	16,100	17,822	(1,722)
Dues and Subscriptions	1,500	1,902	(402)
Contractual Services			
Special Services	3,765	20,590	(16,825)
<b>Municipal Court Capital Improvement Fund</b>			
General Government			
Capital Outlay			
Equipment Capital Outlay	49,112	71,426	(22,314)
<b>Various Improvement Note 2005 Fund</b>			
General Government			
Capital Outlay			
Equipment Capital Outlay	0	165,111	(165,111)
<b>Transportation/Antenucci Improvement 04 Fund</b>			
General Government			
Contractual Services			
Advertising/Printing	0	269	(269)

**CITY OF GARFIELD HEIGHTS  
CUYAHOGA COUNTY  
DECEMBER 31, 2006**

**SCHEDULE OF FINDINGS**

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

**FINDING NUMBER** **2006-002**

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

<b>Fund/Function/Detail Object</b>	<b>Appropriations</b>	<b>Expenditures Plus Encumbrances**</b>	<b>Excess</b>
<b>Revolving Fund</b>			
General Government			
Personal Services			
Pension	39,400	46,783	(7,383)
Materials and Supplies			
Office Supplies	0	2,147	(2,147)
Operating Supplies	185,201	208,530	(23,329)
Gasoline	153,475	208,764	(55,289)
Diesel Fuel	64,560	81,184	(16,624)
Oil	5,791	8,018	(2,227)
Tires and Tubes	24,426	31,461	(7,035)
<b>Restricted Fund</b>			
General Government			
Contractual Services			
Special Services	10,561	12,532	(1,971)
Materials and Supplies			
Operating Supplies	46,350	58,361	(12,011)
Transfers			
Trans- GF	22,000	47,627	(25,627)

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, 2006**

**SCHEDULE OF FINDINGS**

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

<b>FINDING NUMBER</b>	<b>2006-003</b>
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**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, 2006.

General Fund	\$ 1,311,216
Special Revenue Funds	
Recreation Fund	58,192
Street Construction, Maintenance and Repair Fund	401,825
Federal Nutrition Fund	609,945
Community Development Fund	9,193

Additionally, throughout the year, the City had funds with negative cash balances that ranged from \$ 210 to \$640,368. (The \$640,368 was in the Federal Nutrition Fund which was reduced to \$609,945 at December 31, 2006, as shown above).

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 conduct a closer monitoring of cash balances to ensure that negative cash balances do not exist, throughout the year and at year end, in accordance with Ohio Revised Code Section 5705.10 (H).

<b>FINDING NUMBER</b>	<b>2006-004</b>
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**Estimated Resources vs. Appropriations – Noncompliance Finding**

**Ohio Rev. Code Section 5705.39** provides in part that the total appropriation from each fund shall not exceed the estimated revenue available for expenditure there from as certified by the county budget commission. In addition, Ohio Rev. Code 5705.40 requires that any appropriation measure may be amended or supplemented as long as the entity complies with the same provisions of the law as are used in making the original appropriation.

The following funds had appropriations which were in excess of estimated resources as reported on the Official Certificate of Estimated Resources at December 31, 2006:

<u>Fund</u>	<u>Estimated Resources</u>	<u>Appropriations</u>	<u>Variance</u>
Federal Nutrition Fund	(\$90,832)	\$442,040	(\$532,872)
Revolving Equipment Fund	235,950	1,051,550	(815,600)

<b>FINDING NUMBER</b>	<b>2006-004</b>
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**CITY OF GARFIELD HEIGHTS  
CUYAHOGA COUNTY  
DECEMBER 31, 2006**

**SCHEDULE OF FINDINGS**

<b>FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS</b>
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**Estimated Resources vs. Appropriations – Noncompliance Finding (Continued)**

This weakness could allow expenditures to exceed total available fund balance plus current year revenues which would result in a negative fund balance.

We recommend that the City review appropriations and estimated resources, on a monthly basis, and make the necessary revisions to the budget and the County Auditor in order to comply with legal budgetary requirements.

**Official's Response:**

The City will conduct a closer monitoring of budgetary activity to ensure that appropriations do not exceed estimated resources in accordance with Ohio Revised Code 5705.39.

<b>FINDING NUMBER</b>
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<b>2006-005</b>
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**Certification of Availability of Funds – Noncompliance Finding**

**Ohio Rev. Code Section 5705.41 (D)(1)** prohibits a subdivision of taxing entity from making any contract or ordering any expenditure of money unless a certificate signed by the fiscal officer is attached thereto. The fiscal officer must certify that the amount required to meet any such contract or expenditure has been lawfully appropriated and is in the treasury, or is in the process of collection to the credit of an appropriate fund free from any previous encumbrance. Every such contract made without such a certificate shall be void and no warrant shall be issued in payment of an amount due thereon.

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

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

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

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

**CITY OF GARFIELD HEIGHTS  
CUYAHOGA COUNTY  
DECEMBER 31, 2006**

**SCHEDULE OF FINDINGS**

<b>FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS</b>
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<b>FINDING NUMBER</b>	<b>2006-005</b>
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**Certification of Availability of Funds – Noncompliance Finding (Continued)**

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

Fourteen percent of expenditures tested (nine (9) of sixty-four (64) had purchase orders dated after the corresponding invoice. Failure to properly certify the availability of funds can result in overspending funds and negative cash balances.

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

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

**Officials' Response:**

The City will conduct a closer monitoring of expenditures to ensure the proper certification of the availability of funds in accordance with Ohio Revised Code Section 5705.41 (D)(1).



**CITY OF GARFIELD HEIGHTS  
CUYAHOGA COUNTY  
DECEMBER 31, 2006**

**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; <b><i>Explain</i></b>
2005-001	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 2006-002.
2005-002	Ohio Rev. Code 5705.10 (H), 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 2006-003.
2005-003	Ohio Rev. Code 5705.14, 5705.15 and 5705.16, Transfers.	No	Not Corrected. Reissued as Management Letter comment. No illegal transfers; however, transfers made were not individually approved by Council.
2005-004	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 2006-001.
2005-005	Method of Accounting for Bond Interest. City needs to record all debt interest payments to its books and should also budget for.	Yes	





**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  
DECEMBER 27, 2007**