



Dave Yost • Auditor of State



**CITY OF GARFIELD HEIGHTS  
CUYAHOGA COUNTY**

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CUYAHOGA COUNTY**

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# Dave Yost • 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 the City of Garfield Heights, Cuyahoga County, Ohio (the City), as of and for the years ended December 31, 2010, and 2009, 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.

The Auditor of State served during the years ended December 31, 2010, and 2009, as the City's financial supervisor in accordance with procedures established under Ohio Revised Code §118.05(G). Government Auditing Standards considers this service to impair the independence of the Auditor of State to conduct the audit of the City because the Auditor of State may assume broad management powers, duties, and functions in accordance with Ohio Revised Code §118.04. However, Government Auditing Standards permits the Auditor of State to audit and opine on this entity, because Ohio Revised Code §118.05(G) requires the Auditor of State to provide these supervisory services, and Ohio Revised Code §117.11(B) and 115.56 mandate the Auditor of State to audit Ohio governments.

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, 2010, and 2009, and the respective changes in financial position thereof and the budgetary comparison for the General Fund for the years then ended in conformity with accounting principles generally accepted in the United States of America.

The accompanying financial statements have been prepared assuming the City will continue as a going concern. As described in Note 1 to the financial statements for fiscal year 2010, the City is experiencing certain financial difficulties. The Auditor of State has determined a fiscal emergency exists, and a financial planning and supervision commission has assumed certain management responsibilities for the duration of this emergency pursuant to Chapter 118 of the Ohio Rev. Code. The City's financial difficulties have resulted in deficit fund balances in the General Fund of \$5,101,803 that raise substantial doubt about the City's ability to continue as a going concern. Management's corrective action plan is described in Note 18 to the financial statements for fiscal year 2010. The financial statements do not include any adjustments that might result from the outcome of this uncertainty.

As described in Note 18 to the financial statements for fiscal year 2009, the City experienced financial difficulties at December 31, 2009. The difficulties have resulted in a deficit fund balance in the General Fund of \$6,015,376, and other funds of \$573,237. Management's corrective action plan is described in Note 18 to the financial statements for fiscal year 2009.

In accordance with *Government Auditing Standards*, we have also issued our report dated July 12, 2012, 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.

Accounting principles generally accepted in the United States of America require this presentation to include *Management's discussion and analysis*, as listed in the table of contents, to supplement the basic financial statements. Although this information is not part of the basic financial statements, the Governmental Accounting Standards Board considers it essential for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any other assurance.



**Dave Yost**  
Auditor of State

July 12, 2012

**City of Garfield Heights, Ohio**  
*Management's Discussion and Analysis*  
*For the Year Ended December 31, 2010*  
*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, 2010. 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 and the notes to the basic financial statements to enhance their understanding of the City's financial performance.

### **Financial Highlights**

- In October 2008, the State Auditor's Office placed the City of Garfield Heights into Fiscal Emergency. Since this designation, the City has worked to put in place a plan of action to eliminate this situation. In March 2009 the City Council approved the City's Financial Recovery Plan to eliminate the Fiscal Emergency situation and in April 2009 the State Financial Oversight Commission approved the City's plan of action. Between 2009 and the spring of 2011, the City made many revisions to the Plan in order to keep on track with a 5-year projection provided by the State Auditor's Office. Unfortunately, with the new biennial State budget and its proposed revenue cuts to local governments, as proposed by the Governor, it appears from the projections that the City will now have around a \$900,000 deficit balance in the general fund at the end of 2015.
- During 2010 the City was able to reduce the timing of accounts payable payments from 150 days at the beginning of the year to 60 days by the end of the year. This was due in large part to the savings that were realized through the implementation of the City's Financial Recovery Plan.
- The City issued \$10,625,000 in general obligation bonds in late 2010 at an average coupon rate of 4.28 percent. These bond proceeds were utilized to pay off \$5,508,000 of short term one year notes into fixed rate long term debt, \$500,000 of new debt to cover anticipated costs of three road projects, and the current refunding of two 1998 debt issues that resulted in lower annual debt scheduled payments.
- The City's early retirement plan, which was instituted as a part of the financial recovery plan and approved by both the City Council and the State Financial Oversight Commission, ended on September 30, 2010. The program has been a success with over 30 employees taking advantage of the plan and thus reducing the City's staff and payroll in the process.

### **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.



**City of Garfield Heights, Ohio**  
*Management's Discussion and Analysis*  
*For the Year Ended December 31, 2010*  
*Unaudited*

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**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 2010?" The Statement of Net Assets and the Statement of Activities answer this question. These statements include all assets and liabilities using the accrual basis of accounting similar to the accounting used by the private sector companies. This basis of accounting takes into account all of the current year's revenues and expenses regardless of when the cash is received or paid.

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

In the Statement of Net Assets and the Statement of Activities, all of the City's activities are reported as Governmental Activities, which include all of the City's services including police, fire, administration and all 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 8. 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 fund, the bond retirement debt service fund and the various improvement capital projects fund. All other funds of the City are grouped together in the category of Other Governmental 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.

***Fiduciary Funds*** are used to account for resources held for the benefit of parties outside the government. Fiduciary funds are not reflected in the government-wide financial statements because the resources of those funds are not available to support the City of Garfield Heights' own programs.

**City of Garfield Heights, Ohio**  
*Management's Discussion and Analysis*  
*For the Year Ended December 31, 2010*  
*Unaudited*

**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 2010 compared to 2009.

(Table 1)  
 Net Assets

	Governmental Activities		
	2010	2009	Change
<b>Assets</b>			
Current and Other Assets	\$22,028,876	\$21,361,382	\$667,494
Capital Assets, Net	32,573,716	34,733,325	(2,159,609)
<i>Total Assets</i>	<u>54,602,592</u>	<u>56,094,707</u>	<u>(1,492,115)</u>
<b>Liabilities</b>			
Current and Other Liabilities	16,238,349	20,007,700	3,769,351
Long-Term Liabilities:			
Due Within One Year	2,700,310	2,162,066	(538,244)
Due in More than One Year	33,318,086	35,121,688	1,803,602
<i>Total Liabilities</i>	<u>52,256,745</u>	<u>57,291,454</u>	<u>5,034,709</u>
<b>Net Assets</b>			
Invested in Capital Assets, Net of Related Debt	10,773,998	12,474,388	(1,700,390)
Restricted:			
Capital Projects	743,672	610,918	132,754
Debt Service	1,580,248	1,413,663	166,585
Street Lighting	243,072	221,840	21,232
Courts	143,259	86,821	56,438
Other Purposes	547,114	699,556	(152,442)
Unrestricted (Deficit)	<u>(11,685,516)</u>	<u>(16,703,933)</u>	<u>5,018,417</u>
<i>Total Net Assets</i>	<u>\$2,345,847</u>	<u>(\$1,196,747)</u>	<u>\$3,542,594</u>

By comparing assets and liabilities, one can see the position of the City has increased as evidenced by the increase in net assets. Management continues to diligently plan expenses, staying carefully within the City's revenues in an effort to maintain excellent levels of service within the constraints of the budget.

In order to further understand what makes up the changes in net assets for the current year, the following table gives readers further details regarding the results of activities for the current year. Table 2 shows total revenues, expenses and changes in net assets for the fiscal year 2010 and 2009.

**City of Garfield Heights, Ohio**  
*Management's Discussion and Analysis*  
*For the Year Ended December 31, 2010*  
*Unaudited*

Table 2  
Changes in Net Assets

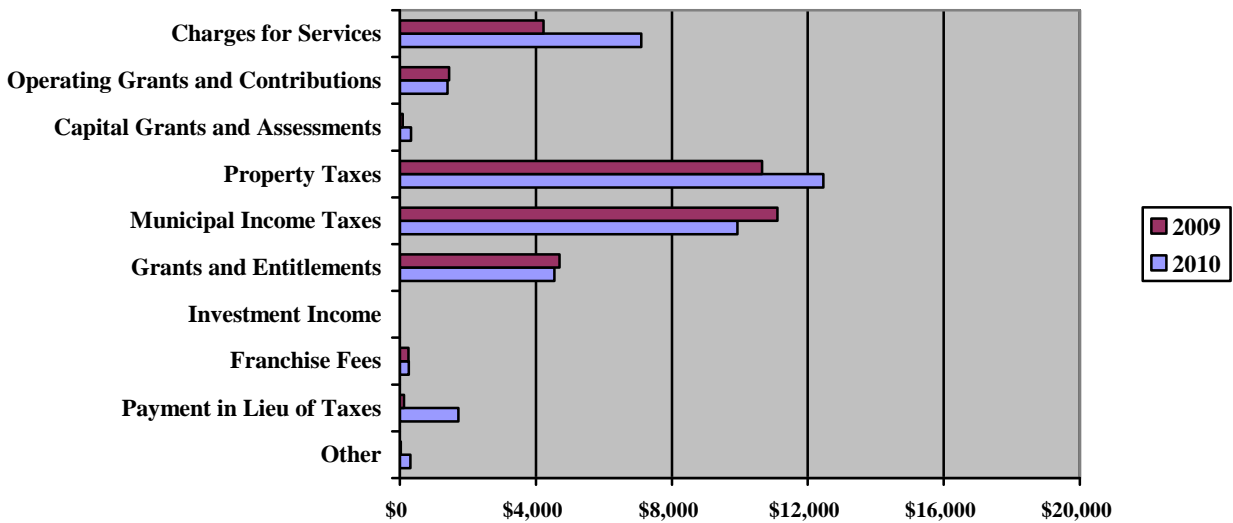
	Governmental Activities		
	2010	2009	Change
<b>Revenues</b>			
<b><i>Program Revenues</i></b>			
Charges for Services	\$7,099,360	\$4,226,576	\$2,872,784
Operating Grants	1,399,940	1,445,411	(45,471)
Capital Grants and Assessments	326,629	79,872	246,757
<i>Total Program Revenues</i>	<u>8,825,929</u>	<u>5,751,859</u>	<u>3,074,070</u>
<b><i>General Revenues</i></b>			
Property Taxes	12,459,060	10,654,751	1,804,309
Municipal Income Taxes	9,924,768	11,107,169	(1,182,401)
Grants and Entitlements not Restricted to Specific Programs	4,543,517	4,693,727	(150,210)
Interest	1,985	4,356	(2,371)
Franchise Fees	264,692	256,283	8,409
Payments in Lieu of Taxes	1,718,234	124,806	1,593,428
Other	313,529	504,904	(191,375)
<i>Total General Revenues</i>	<u>29,225,785</u>	<u>27,345,996</u>	<u>1,879,789</u>
<i>Total Revenues</i>	<u>38,051,714</u>	<u>33,097,855</u>	<u>4,953,859</u>
<b><i>Program Expenses</i></b>			
General Government	9,246,368	10,826,356	1,579,988
Security of Persons and Property	12,978,632	12,904,431	(74,201)
Public Health Services	755,328	506,283	(249,045)
Transportation	6,144,654	4,051,419	(2,093,235)
Community Development	133,764	148,951	15,187
Basic Utility Services	2,615,395	3,365,865	750,470
Leisure Time Activities	1,467,425	1,766,722	299,297
Interest and Fiscal Charges	1,167,554	1,560,962	393,408
<i>Total Program Expenses</i>	<u>34,509,120</u>	<u>35,130,989</u>	<u>621,869</u>
<i>Change in Net Assets</i>	3,542,594	(2,033,134)	5,575,728
Net Assets Beginning of Year	(1,196,747)	836,387	(2,033,134)
<i>Net Assets End of Year</i>	<u>\$2,345,847</u>	<u>(\$1,196,747)</u>	<u>\$3,542,594</u>

**City of Garfield Heights, Ohio**  
*Management's Discussion and Analysis*  
*For the Year Ended December 31, 2010*  
*Unaudited*

**Governmental Activities**

Several revenue sources fund our governmental activities, with property taxes being the largest. Property taxes increased due to an increase in estimated taxes for 2010. Municipal income taxes is the second largest source of revenue. Municipal income taxes decreased in 2010, due to high unemployment rates and business layoffs within the City. 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. Grants and entitlements decreased due to the availability of less grants to the City. Charges for services increased due to the implementation of a garbage and traffic light fees to City residents. Payment in Lieu of Taxes increased due to the collections of a full year of payments. Operating grants, capital grants and assessments, franchise fees, interest income and other revenue had immaterial changes from 2009.

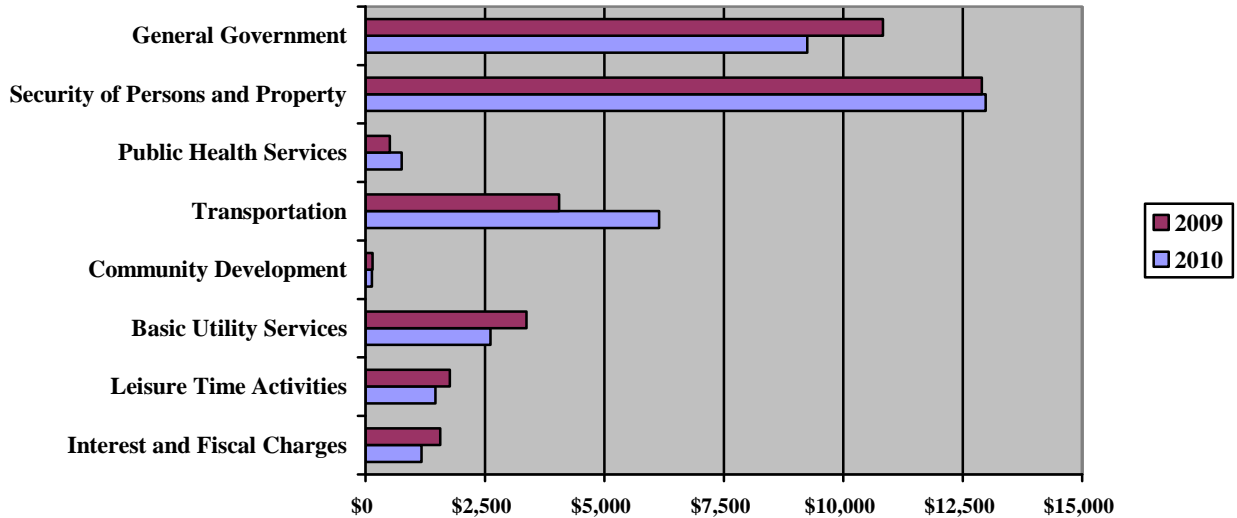
**Governmental Revenues (In Thousands)**



Major expense activities, under the accrual basis of accounting, include security of persons and property expenses and general government programs. Due to careful budgeting, overall expenses decreased from 2009. The decrease in general government expenses is due to less costs from the early retirement incentive plan in 2010 compared to 2009. The increase in transportation is due to the City using monies from incremental financing (TIFs) various capital projects. The decrease in basic utility services is due to fewer sewer projects in 2010 compared to 2009.

**City of Garfield Heights, Ohio**  
*Management's Discussion and Analysis*  
*For the Year Ended December 31, 2010*  
*Unaudited*

**Governmental Expenses (In Thousands)**



**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 governmental funds had total revenues of \$35,631,638 and total expenditures of \$40,826,698. The net effect for all governmental funds was a deficit fund balance of \$4,752,519. This deficit fund balance represents an increase from the deficit fund balance that the City had at the end of 2009, and this is due to the City making an effort to cut costs and increase revenues.

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, the economic slow down, and the more recent housing crisis 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 \$5,101,803 at year end, an increase over a deficit fund balance of \$6,015,376 in 2009. The increase was due to an overall increase in charges for services revenues as well as an decrease in expenditures. There were many major factors that resulted in the negative fund balance. Some of these were regulatory changes such as: 1) high unemployment rate that resulted in lower municipal tax collections; and 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.

***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.

**City of Garfield Heights, Ohio**  
*Management's Discussion and Analysis*  
*For the Year Ended December 31, 2010*  
*Unaudited*

During the course of 2010, the City amended its general fund budget. All recommendations for any budget change come from the City Finance Director to the Finance Committee of Council for review before going to the whole Council for ordinance enactment on the change. The City does not allow budget changes that modify line items within departments without Council approval. With the general fund supporting many of the major activities such as the police and fire departments, as well as most legislative and executive activities, the general fund is monitored closely for possible revenue shortfalls or over spending by individual departments.

For the general fund, original and final budgeted revenues were \$28,980,485 and \$30,748,610, respectively, and actual revenue collections were \$23,791,318. The major factors contributing to the decrease of actual revenues over the budgeted amounts were decreases in property taxes, charges for services and fines and forfeitures offset by increases to fees, licenses and permits and intergovernmental revenues. The decreases can all be attributed to the overall poor economy. The City of Garfield Heights' ending balance in the general fund was \$524,673 below the final budgeted amount, thus resulting in a deficit fund balance of \$2,167,329. 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 Year End  
 (Net of Depreciation)

	Governmental Activities		
	2010	2009	Change
Land	\$1,573,091	\$1,573,091	\$0
Construction in Progress	759,197	759,197	0
Buildings and Improvements	11,995,375	12,458,277	(462,902)
Vehicles	2,206,496	2,605,308	(398,812)
Machinery and Equipment	975,144	1,137,810	(162,666)
Furniture and Fixtures	126,108	147,025	(20,917)
Infrastructure	14,938,305	16,052,617	(1,114,312)
Total	\$32,573,716	\$34,733,325	(\$2,159,609)

Total capital assets for the City of Garfield Heights as of December 31, 2010 decreased from 2009. There were additions to machinery and equipment which was far exceeded by current year depreciation which accounted for the decrease. See Note 9 for additional information on the City's capital assets.

**City of Garfield Heights, Ohio**  
*Management's Discussion and Analysis*  
*For the Year Ended December 31, 2010*  
*Unaudited*

***Long Term Debt***

The City's overall legal debt margin at December 31, 2010 was \$19,346,760. Table 4 indicates the total outstanding long-term debt of the City.

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

	Governmental Activities		
	2010	2009	Change
General Obligation Bonds	\$30,083,746	\$24,968,727	\$5,115,019
Special Assessment Bonds	735,607	859,299	(123,692)
Notes	0	5,508,000	(5,508,000)
Police and Fire Liability	606,065	619,958	(13,893)
Total	\$31,425,418	\$31,955,984	(\$530,566)

During 2010, the City issued \$10,625,000 in general obligation bonds, of which \$5,508,000 was used to retire the notes outstanding in 2009. One of the City's major funds is the bond retirement fund, which is specifically set up for the accumulation and payment of the City's annual principal and interest requirements of the general obligation and special assessment bonds identified above.

The police and fire loan shown in Table 4 above, in the amount of \$606,065 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 over \$40,000 annually through the year 2035. See Note 14 for detailed long-term debt information.

**Current Financial Related Activities**

Prior to the City of Garfield Heights being designated in Fiscal Emergency, the City had 20 years of progressive growth and well being. Unfortunately, since the fall of 2008, when the City was formally placed in Fiscal Emergency by the State of Ohio, most City funded projects and development has come to a halt. Compiled with the general downturn in the economy this is having a negative effect on the City.

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.

**City of Garfield Heights, Ohio**  
*Management's Discussion and Analysis*  
*For the Year Ended December 31, 2010*  
*Unaudited*

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**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 Ron Tomola, Finance Director, City of Garfield Heights, 5407 Turney Road, Garfield Heights, Ohio 44125, 216-475-1100.



## Basic Financial Statements

# City of Garfield Heights, Ohio

## Statement of Net Assets

December 31, 2010

	<u>Governmental Activities</u>
<b>Assets</b>	
Equity in Pooled Cash and Cash Equivalents	\$346,053
Cash and Cash Equivalents With Fiscal Agents	183
Accounts Receivable	2,821,972
Intergovernmental Receivable	2,798,387
Prepaid Items	39,325
Materials and Supplies Inventory	45,137
Municipal Income Taxes Receivable	2,401,967
Property Taxes Receivable	12,035,495
Special Assessments Receivable	735,607
Payment in Lieu of Taxes Receivable	166,124
Deferred Charges	638,626
Nondepreciable Capital Assets	2,332,288
Depreciable Capital Assets, Net	<u>30,241,428</u>
<i>Total Assets</i>	<u>54,602,592</u>
<b>Liabilities</b>	
Accounts Payable	171,341
Contracts Payable	394,122
Accrued Wages	84,723
Intergovernmental Payable	791,567
Matured Compensated Absences Payable	220,597
Early Retirement Incentive Payable	1,311,598
Deferred Revenue	10,051,551
Accrued Interest Payable	114,787
Notes Payable	2,803,360
Claims Payable	294,703
Long-Term Liabilities:	
Due Within One Year	2,700,310
Due In More Than One Year	<u>33,318,086</u>
<i>Total Liabilities</i>	<u>52,256,745</u>
<b>Net Assets</b>	
Invested in Capital Assets, Net of Related Debt	10,773,998
Restricted for:	
Capital Projects	743,672
Debt Service	1,580,248
Street Lighting	243,072
Courts	143,259
Other Purposes	547,114
Unrestricted (Deficit)	<u>(11,685,516)</u>
<i>Total Net Assets</i>	<u><u>\$2,345,847</u></u>

See accompanying notes to the basic financial statements

**City of Garfield Heights, Ohio**  
*Statement of Activities*  
For the Year Ended December 31, 2010

	Program Revenues				Net (Expense) Revenue and Changes in Net Assets
	Expenses	Charges for Services	Operating Grants	Capital Grants and Assessments	Governmental Activities
<b>Governmental Activities:</b>					
General Government	\$9,246,368	\$2,927,553	\$0	\$326,629	(\$5,992,186)
Security of Persons and Property	12,978,632	3,067,770	36,080	0	(9,874,782)
Public Health Services	755,328	61,199	8,319	0	(685,810)
Transportation	6,144,654	225,657	1,277,371	0	(4,641,626)
Community Development	133,764	36,703	0	0	(97,061)
Basic Utility Services	2,615,395	491,405	69,151	0	(2,054,839)
Leisure Time Activities	1,467,425	289,073	9,019	0	(1,169,333)
Interest and Fiscal Charges	1,167,554	0	0	0	(1,167,554)
<i>Totals</i>	<u>\$34,509,120</u>	<u>\$7,099,360</u>	<u>\$1,399,940</u>	<u>\$326,629</u>	<u>(25,683,191)</u>
<b>General Revenues</b>					
Property Taxes Levied for:					
					9,440,117
					518,235
					135,195
					135,195
					76,955
					1,640,330
					513,033
Municipal Income Tax Levied for:					
					6,649,386
					1,056,528
					1,066,293
					620,610
					531,951
Grants and Entitlements not					
					4,543,517
					1,718,234
					1,985
					264,692
					313,529
					<u>29,225,785</u>
					3,542,594
					<u>(1,196,747)</u>
					<u>\$2,345,847</u>

See accompanying notes to the basic financial statements

**City of Garfield Heights, Ohio**

*Balance Sheet*

*Governmental Funds*

*December 31, 2010*

	General	Bond Retirement	Various Improvement	Other Governmental Funds	Total Governmental Funds
<b>Assets</b>					
Equity in Pooled Cash and Cash Equivalents	\$0	\$227,539	\$0	\$118,514	\$346,053
Cash and Cash Equivalents					
With Fiscal Agents	0	0	183	0	183
Accounts Receivable	2,741,563	0	0	80,409	2,821,972
Intergovernmental Receivable	2,010,370	113,553	0	674,464	2,798,387
Prepaid Items	36,897	0	0	2,428	39,325
Materials and Supplies Inventory	30,257	0	0	14,880	45,137
Interfund Receivable	0	0	0	1,664,851	1,664,851
Payments in Lieu of Taxes Receivable	0	0	0	166,124	166,124
Municipal Income Taxes Receivable	1,801,475	168,138	0	432,354	2,401,967
Property Taxes Receivable	8,848,767	1,773,652	0	1,413,076	12,035,495
Special Assessments Receivable	0	735,607	0	0	735,607
<i>Total Assets</i>	<u>\$15,469,329</u>	<u>\$3,018,489</u>	<u>\$183</u>	<u>\$4,567,100</u>	<u>\$23,055,101</u>
<b>Liabilities</b>					
Accounts Payable	\$73,502	\$0	\$0	\$97,839	\$171,341
Contracts Payable	332,670	0	0	61,452	394,122
Accrued Wages	69,143	0	0	15,580	84,723
Intergovernmental Payable	286,635	0	0	504,932	791,567
Matured Compensated Absences Payable	220,597	0	0	0	220,597
Early Retirement Incentive Payable	782,249	0	0	529,349	1,311,598
Interfund Payable	1,630,781	0	0	34,070	1,664,851
Deferred Revenue	14,086,466	2,752,146	0	3,207,692	20,046,304
Accrued Interest Payable	24,454	0	0	0	24,454
Notes Payable	2,803,360	0	0	0	2,803,360
Claims Payable	261,275	0	0	33,428	294,703
<i>Total Liabilities</i>	<u>20,571,132</u>	<u>2,752,146</u>	<u>0</u>	<u>4,484,342</u>	<u>27,807,620</u>
<b>Fund Balances</b>					
Reserved for Encumbrances	0	0	0	51,101	51,101
Unreserved, Undesignated, Reported in:					
General Fund (Deficit)	(5,101,803)	0	0	0	(5,101,803)
Special Revenue Funds (Deficit)	0	0	0	(431,805)	(431,805)
Debt Service Fund	0	266,343	0	0	266,343
Capital Projects Funds	0	0	183	463,462	463,645
<i>Total Fund Balances (Deficit)</i>	<u>(5,101,803)</u>	<u>266,343</u>	<u>183</u>	<u>82,758</u>	<u>(4,752,519)</u>
<i>Total Liabilities and Fund Balances</i>	<u>\$15,469,329</u>	<u>\$3,018,489</u>	<u>\$183</u>	<u>\$4,567,100</u>	<u>\$23,055,101</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, 2010*

<b>Total Governmental Fund Balances</b>	(\$4,752,519)
 <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.	32,573,716
Other long-term assets are not available to pay for current-period expenditures and therefore are deferred in the funds:	
Property Taxes	3,564,244
Municipal Income Taxes	1,847,621
Intergovernmental	2,227,793
Charges for Services	1,619,488
Special Assessments	735,607
Total	9,994,753
In the statement of activities, bond issuance costs are amortized over the term of the bonds, whereas in governmental funds a bond issuance expenditure is reported when bonds are issued.	638,626
In the statement of activities, interest is accrued on outstanding bonds, whereas in governmental funds, an interest expenditure is reported when due.	(90,333)
Long-term liabilities are not due and payable in the current period and therefore are not reported in the funds:	
General Obligation Bonds	(30,083,746)
Special Assessment Bonds	(735,607)
Compensated Absences	(4,587,534)
Claims Payable	(5,444)
Police and Fire Liability	(606,065)
Total	(36,018,396)
 <i>Net Assets of Governmental Activities</i>	 \$2,345,847

See accompanying notes to the basic financial statements

**City of Garfield Heights, Ohio**  
*Statement of Revenues, Expenditures and Changes in Fund Balances*  
*Governmental Funds*  
*For the Year Ended December 31, 2010*

	General	Bond Retirement	Various Improvement	Other Governmental Funds	Total Governmental Funds
<b>Revenues</b>					
Property Taxes	\$8,776,523	\$1,437,471	\$0	\$1,216,990	\$11,430,984
Municipal Income Taxes	6,764,220	631,327	0	2,682,333	10,077,880
Special Assessments	0	231,595	0	0	231,595
Charges for Services	2,712,993	0	0	510,882	3,223,875
Fees, Licenses and Permits	409,288	0	0	382	409,670
Fines and Forfeitures	1,141,775	0	0	737,713	1,879,488
Intergovernmental	3,230,585	1,130,661	0	1,687,185	6,048,431
Interest	1,637	348	0	0	1,985
Rentals	31,275	0	0	0	31,275
Franchise Fees	264,692	0	0	0	264,692
Payments in Lieu of Taxes	0	0	0	1,718,234	1,718,234
Other	199,162	0	0	114,367	313,529
<i>Total Revenues</i>	<u>23,532,150</u>	<u>3,431,402</u>	<u>0</u>	<u>8,668,086</u>	<u>35,631,638</u>
<b>Expenditures</b>					
Current:					
General Government	8,065,031	605,877	0	428,890	9,099,798
Security of Persons and Property	11,192,201	0	0	1,536,953	12,729,154
Public Health Services	220,596	0	0	319,379	539,975
Transportation	27,246	0	0	5,035,432	5,062,678
Community Development	118,635	0	0	0	118,635
Basic Utility Services	1,798,939	0	0	489,589	2,288,528
Leisure Time Activities	0	0	0	1,319,933	1,319,933
Capital Outlay	0	0	0	758,048	758,048
Debt Service:					
Principal Retirement	0	1,826,000	2,178,000	3,343,893	7,347,893
Interest and Fiscal Charges	148,934	814,736	79,167	147,251	1,190,088
Bond Issuance Costs	0	371,968	0	0	371,968
<i>Total Expenditures</i>	<u>21,571,582</u>	<u>3,618,581</u>	<u>2,257,167</u>	<u>13,379,368</u>	<u>40,826,698</u>
<i>Excess of Revenues Over (Under) Expenditures</i>	<u>1,960,568</u>	<u>(187,179)</u>	<u>(2,257,167)</u>	<u>(4,711,282)</u>	<u>(5,195,060)</u>
<b>Other Financing Sources (Uses)</b>					
General Obligation Bonds Issued	0	4,596,890	2,187,326	3,840,784	10,625,000
Premium on Bonds	0	182,596	0	0	182,596
Payment to Refunded Escrow Agent	0	(3,985,000)	0	0	(3,985,000)
Transfers In	929,671	476,961	69,841	2,083,454	3,559,927
Transfers Out	(1,976,666)	(1,026,300)	0	(556,961)	(3,559,927)
<i>Total Other Financing Sources (Uses)</i>	<u>(1,046,995)</u>	<u>245,147</u>	<u>2,257,167</u>	<u>5,367,277</u>	<u>6,822,596</u>
<i>Net Change in Fund Balances</i>	913,573	57,968	0	655,995	1,627,536
<i>Fund Balances (Deficit)</i>					
<i>Beginning of Year</i>	<u>(6,015,376)</u>	<u>208,375</u>	<u>183</u>	<u>(573,237)</u>	<u>(6,380,055)</u>
<i>Fund Balances (Deficit) End of Year</i>	<u>(\$5,101,803)</u>	<u>\$266,343</u>	<u>\$183</u>	<u>\$82,758</u>	<u>(\$4,752,519)</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, 2010*

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**Net Change in Fund Balances - Total Governmental Funds** \$1,627,536

***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	53,785	
Depreciation	(2,213,287)	
Total		(2,159,502)

Governmental funds only report the disposal of capital assets to the extent proceeds are received from the sale. In the statement of activities, a gain or loss is reported for each disposal. (107)

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

Property Taxes	1,028,076	
Municipal Income Taxes	(153,112)	
Intergovernmental	113,752	
Charges for Services	1,555,052	
Special Assessments	(123,692)	
Total		2,420,076

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. 11,332,893

In the statement of activities bond issuance costs are amortized over the term of the bonds, whereas in governmental funds a bond issuance expenditure is reported when bonds are issued. 371,968

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

Accrued Interest on Bonds	40,029	
Amortization of Bond Issuance Costs	(22,764)	
Amortization of Loss on Refunding	(4,140)	
Amortization of Bond Premium	9,409	
Total		22,534

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	292,946	
Claims	441,846	
Total		734,792

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

General Obligation Bonds Issued	(10,625,000)	
Premium on Bonds	(182,596)	
Total		(10,807,596)

*Change in Net Assets of Governmental Activities* \$3,542,594

See accompanying notes to the basic financial statements

**City of Garfield Heights, Ohio**  
*Statement of Revenues, Expenditures and Changes*  
*In Fund Balance - Budget (Non-GAAP Basis) and Actual*  
*General Fund*  
*For the Year Ended December 31, 2010*

	<u>Budgeted Amounts</u>			Variance with Final Budget Positive (Negative)
	<u>Original</u>	<u>Final</u>	<u>Actual</u>	
<b>Revenues</b>				
Property Taxes	\$8,776,533	\$8,776,533	\$8,776,523	(\$10)
Municipal Income Taxes	11,882,793	13,650,918	6,893,702	(6,757,216)
Charges for Services	2,864,188	2,864,188	2,850,107	(14,081)
Fees, Licenses and Permits	402,468	402,468	407,968	5,500
Fines and Forfeitures	1,181,935	1,181,935	1,179,850	(2,085)
Intergovernmental	3,195,187	3,195,187	3,207,238	12,051
Interest	1,550	1,550	1,637	87
Rentals	32,527	32,527	31,275	(1,252)
Franchise Fees	264,996	264,996	264,692	(304)
Other	378,308	378,308	178,326	(199,982)
<i>Total Revenues</i>	<u>28,980,485</u>	<u>30,748,610</u>	<u>23,791,318</u>	<u>(6,957,292)</u>
<b>Expenditures</b>				
Current:				
General Government	7,496,476	8,835,891	8,754,466	81,425
Security of Persons and Property	12,035,360	13,108,285	11,487,791	1,620,494
Public Health Services	190,402	229,102	228,118	984
Community Development	127,954	153,980	152,677	1,303
Basic Utility Services	1,708,732	1,906,402	1,888,490	17,912
<i>Total Expenditures</i>	<u>21,558,924</u>	<u>24,233,660</u>	<u>22,511,542</u>	<u>1,722,118</u>
<i>Excess of Revenues Over Expenditures</i>	<u>7,421,561</u>	<u>6,514,950</u>	<u>1,279,776</u>	<u>(5,235,174)</u>
<b>Other Financing Sources (Uses)</b>				
Transfers In	80,000	80,000	80,000	0
Transfers Out	(6,066,097)	(6,687,167)	(1,976,666)	4,710,501
<i>Total Other Financing Sources (Uses)</i>	<u>(5,986,097)</u>	<u>(6,607,167)</u>	<u>(1,896,666)</u>	<u>4,710,501</u>
<i>Net Change in Fund Balance</i>	1,435,464	(92,217)	(616,890)	(524,673)
<i>Fund Deficit Beginning of Year</i>	(1,769,187)	(1,769,187)	(1,769,187)	0
Prior Year Encumbrances Appropriated	218,748	218,748	218,748	0
<i>Fund Balance (Deficit) End of Year</i>	<u>(\$114,975)</u>	<u>(\$1,642,656)</u>	<u>(\$2,167,329)</u>	<u>(\$524,673)</u>

See accompanying notes to the basic financial statements



**City of Garfield Heights, Ohio**  
*Statement of Fiduciary Assets and Liabilities*  
*Agency Funds*  
*December 31, 2010*

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	<u>Agency</u>
<b>Assets</b>	
Cash and Cash Equivalents in Segregated Accounts	<u>\$1,051,254</u>
<b>Liabilities</b>	
Intergovernmental Payable	\$615,468
Due to Others	<u>435,786</u>
<i>Total Liabilities</i>	<u>\$1,051,254</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, 2010*

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**Note 1 - Description of the City and Reporting Entity**

The City of Garfield Heights (the City) 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 a seven member council elected from wards. 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).

On October 14, 2008, the Auditor of State's office declared the City of Garfield Heights to be in a state of fiscal emergency in accordance with Section 118.03, Ohio Revised Code. The declaration resulted in the establishment of a Financial Planning and Supervision Commission. The Commission is comprised of the Mayor of the City, Council President, three financial consultants from various corporations and/or organizations within the City and two representatives from the State of Ohio. The City has 120 days after the first meeting of the Commission to approve a financial recovery plan. Once the plan has been adopted, the City's discretion is limited in that all financial activity of the City must be in accordance with the plan. See Note 18 for more information on the City's fiscal emergency status.

***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, 2010*

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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.

***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 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.

***Fund Accounting***

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

***Governmental Funds***

Governmental funds are those through which most governmental functions typically are financed. Governmental fund reporting focuses on the sources, uses and balances of current financial resources.

**City of Garfield Heights, Ohio**  
*Notes to the Basic Financial Statements*  
*For the Year Ended December 31, 2010*

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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 project fund receives the proceeds of long-term note issues and transfers from the bond retirement fund for use in various improvement projects around the City and payment of note principal and interest.

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 payments in lieu of taxes collected on the Transportation-Antenucci Boulevard tax increment financing, which are due to the Garfield Heights City School District and the Cuyahoga County Port Authority.

***Measurement Focus***

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

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

**City of Garfield Heights, Ohio**  
*Notes to the Basic Financial Statements*  
*For the Year Ended December 31, 2010*

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***Basis of Accounting***

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

***Revenues – Exchange and Non-exchange Transactions***

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

Nonexchange transactions, in which the City receives value without directly giving equal value in return, include income taxes, property taxes, grants, entitlements and donations. On an accrual basis, revenue from income taxes is recognized in the year in which the income is earned. Revenue from property taxes is recognized in the year for which the taxes are levied (See Note 8). Revenue from grants, entitlements and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the year when use is first permitted, matching requirements, in which the City must provide local resources to be used for a specified purpose, and expenditure requirements, in which the resources are provided to the City on a reimbursement basis. On a modified accrual basis, revenue from nonexchange transactions must also be available before it can be recognized.

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

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

Property taxes for which there is an enforceable legal claim as of December 31, 2010, but which were levied to finance year 2011 operations, have been recorded as deferred revenue. Grants and entitlements received before the eligibility requirements are met are also recorded as deferred revenue.

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

***Expenses/Expenditures***

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

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

**City of Garfield Heights, Ohio**  
*Notes to the Basic Financial Statements*  
*For the Year Ended December 31, 2010*

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***Budgetary Process***

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

***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. The City had no investments during the year or at year end.

Due to the poor financial condition of the City, several funds made advances to the general fund to eliminate the fund negative cash balance. The general fund and the TIF capital project fund had interfund payables for the amount of the advance received for negative cash balances at year end and the special revenue and capital projects funds have an interfund receivable for the amount advanced to the general fund and TIF capital project fund.

Investment procedures are restricted by the provisions of the Ohio Revised Code. Interest revenue credited to the general fund during 2010 amounted to \$1,637, 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."

The City has segregated bank accounts for monies held separate from the City's central bank account. These depository accounts are presented as "Cash and Cash Equivalents in Segregated Accounts" and represent deposits.

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.

***Inventory***

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

**City of Garfield Heights, Ohio**  
*Notes to the Basic Financial Statements*  
*For the Year Ended December 31, 2010*

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***Prepaid Items***

Payments made to vendors for services that will benefit periods beyond December 31, 2010 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.

***Capital Assets***

General capital assets are those assets not specifically related to activities reported in the proprietary funds. 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:

<u>Description</u>	<u>Estimated Lives</u>
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

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

***Interfund Balances***

On fund financial statements, outstanding interfund loans and unpaid amounts for interfund services are reported as "interfund receivables/payables." Interfund balance amounts are eliminated in the statement of net assets.

***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.

**City of Garfield Heights, Ohio**  
*Notes to the Basic Financial Statements*  
*For the Year Ended December 31, 2010*

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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.

The entire compensated absences liability is reported on the government-wide financial statements.

On the governmental fund financial statements, compensated absences are recognized as liabilities and expenditures to the extent payments come due each period upon the occurrence of employee resignations and retirements. These amounts are recorded in the account "matured compensated absences payable" in the fund(s) from which the employees who have resigned or retired will be paid.

***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.

***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.

***Net Assets***

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowing used for the acquisition, construction or improvement of those assets. Net assets are reported as restricted when there are limitations imposed on their use either through constitutional provisions or enabling legislation or through external restrictions imposed by creditors, grantors or laws or regulations of other governments. 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.



**City of Garfield Heights, Ohio**  
*Notes to the Basic Financial Statements*  
*For the Year Ended December 31, 2010*

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***Internal Activity***

Transfers between governmental activities are eliminated on the government wide financial statements. Internal allocations of overhead expenses from one function to another or within the same function are eliminated on the Statement of Activities. Interfund payments for services provided and used are not eliminated.

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

***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 straight line method. Within the governmental fund statements, bond issuance costs are expended when incurred.

As permitted by State statute, the City paid bond issuance costs from the bond proceeds and therefore does not consider that portion of the debt to be capital-related debt. That portion of the debt was offset against the unamortized bond issuance costs which were included in the determination of unrestricted net assets. Reporting both within the same element of net assets prevents one classification from being overstated while another is understated by the same amount.

***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.

***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.

***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.

***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.

**City of Garfield Heights, Ohio**  
*Notes to the Basic Financial Statements*  
*For the Year Ended December 31, 2010*

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**Note 3 - Change in Accounting Principles**

For 2010, the City has implemented Governmental Accounting Standard Board (GASB) Statement No. 51, "Accounting and Financial Reporting for Intangible Assets". GASB Statement No. 51 establishes accounting and financial reporting requirements for intangible assets to reduce inconsistencies thereby enhancing the comparability of accounting and financial reporting of such assets among state and local governments. The implementation of this statement did not result in any change to the City's financial statements.

**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.

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	\$913,573
Net Adjustment for Revenue Accruals	(881,203)
Beginning Unrecorded Cash	464,121
Ending Unrecorded Cash	(173,421)
Net Adjustment for Expenditure Accruals	(576,833)
Encumbrances	(363,127)
Budget Basis	<u><u>(\$616,890)</u></u>

**City of Garfield Heights, Ohio**  
*Notes to the Basic Financial Statements*  
*For the Year Ended December 31, 2010*

**Note 5 - Accountability and Compliance**

*Accountability*

The following funds had deficit fund balances as of December 31, 2010:

<b><i>General Fund</i></b>	<b>\$5,101,803</b>
<b><i>Special Revenue Funds</i></b>	
Police Pension	215,255
Fire Pension	205,701
Recreation	112,624
Street Construction, Maintenance and Repair	513,183
<b><i>Capital Projects Fund</i></b>	
Permanent Improvement	133,196
Tax Increment Financing	34,070

The general fund concluded 2010 with a deficit fund balance of \$5,101,803. The City has experienced a financial shortfall which has resulted in deficit spending in the general fund. To alleviate the financial shortfall, the City has developed a strategy to stabilize its cash shortfall. See Note 18 for further information.

The special revenue and the capital projects funds 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 transfers when cash is required, not when accruals occur.

***Compliance***

The City had negative cash fund balances in the general fund in the amount of \$1,659,885. This indicates that revenue from other sources was used to pay obligations of these funds contrary to Ohio Revised Code Section 5705.10(H).

Contrary to Ohio Revised Code Section 5705.41(B) the following accounts in the general fund had expenditures plus encumbrances in excess of appropriations:

Fund/Function/Object	Appropriations Plus Prior Year Encumbrances	Expenditures Expenditures Plus Encumbrances	Excess
<b>General</b>			
General Government			
Land and Buildings			
Office Supplies	\$200	\$4,065	(\$3,865)
Miscellaneous			
Unemployment Compensation	49,000	55,381	(6,381)
COBRA	1,250	1,424	(174)
Redflex Charges	265,000	318,306	(53,306)
Traffic Camera Charges	21,000	121,207	(100,207)

The general fund had final appropriations in excess of estimated resources and carryover encumbrances as reported on the Official Certificate of Estimated Resources in the amount of \$1,496,721, 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, 2010*

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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**

The City is a charter City and has adopted an investment policy through City Ordinance. The City has elected to follow the provisions of State statute. State statutes classify monies held by the City into three categories.

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

Inactive deposits are public deposits that 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 bills, bonds, notes or any other obligation or security issued by the United States Treasury, or any other obligation guaranteed as to principal and interest by the United States;
2. Bonds, notes, debentures, or 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;
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);
7. The State Treasurer's investment pool (STAR Ohio); and
8. Commercial paper and bankers acceptances if training requirements have been met.

**City of Garfield Heights, Ohio**  
*Notes to the Basic Financial Statements*  
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The City may also invest any monies not required to be used for a specific period of six months or more in the following:

1. Bonds of the State of Ohio:
2. Bonds of any municipal corporation, village, county, township, or other political subdivision of this State, as to which there is no default of principal, interest, or coupons; and
3. Obligation of the City.

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, \$1,319,606 of the City's bank balance of \$1,987,007 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**

### ***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 require compliance with terms and conditions specified in the grant agreements and are 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, 2010.

### ***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, 2010 consisted primarily of municipal income taxes, property taxes, payments in lieu of taxes, accounts, intergovernmental, interfund receivables and special assessments.

**City of Garfield Heights, Ohio**  
*Notes to the Basic Financial Statements*  
*For the Year Ended December 31, 2010*

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No allowances for doubtful accounts have been recorded as uncollectible amounts are expected to be insignificant. All receivables except property taxes and special assessments are expected to be collected within one year. Property taxes, although ultimately collectible, include some portion of delinquencies that will not be collected within one year.

Special assessments expected to be collected in more than one year amount to \$609,171 in the bond retirement fund.

***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 2010 for real and public utility property taxes represents collections of the 2009 taxes. Property tax payments received during 2010 for tangible personal property (other than public utility property) is for 2010 taxes.

2010 real property taxes are levied after October 1, 2010 on the assessed value as of January 1, 2010, the lien date. Assessed values are established by State law at 35 percent of appraised market value. 2010 real property taxes are collected in and intended to finance 2011.

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

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. 2010 public utility property taxes became a lien December 31, 2009, are levied after October 1, 2010, and are collected in 2011 with real property taxes.

Tangible personal property tax revenue received during 2010 (other than public utility property tax) represents the collection of 2010 taxes levied against local and inter-exchange telephone companies. Tangible personal property tax on business inventory, manufacturing machinery and equipment, furniture and fixtures, as of 2009, is no longer levied and collected. 2010 is the last year for the collection of tangible personal property taxes from telephone companies; however, the City received no tangible personal property tax revenue from telephone company property. Tangible personal property taxes received from telephone companies in 2010 were levied after October 1, 2009, on the value as of December 31, 2009. Amounts paid by multi-county taxpayers are due September 20. Single county taxpayers may pay annually or semiannually. If paid annually, payment is due April 30; if paid semiannually, the first payment is due April 30, with the remainder payable by September 20.

The full tax rate for all City operations for the year ended December 31, 2010 was \$24.70 per \$1,000 of assessed value. The assessed values of real and tangible personal property upon which 2010 property tax receipts were based are as follows:

Real Estate	
Residential/Agricultural	\$349,540,580
Other Real Estate	107,245,480
Tangible Personal Property	
Public Utility	9,202,610
Total	<u><u>\$465,988,670</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 property taxes, public utility taxes and outstanding

**City of Garfield Heights, Ohio**  
*Notes to the Basic Financial Statements*  
*For the Year Ended December 31, 2010*

delinquencies which are measurable as of December 31, 2010 and for which there is an enforceable legal claim. In the governmental funds, the entire receivable has been offset by deferred revenue since the current taxes were not levied to finance 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.

***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.

***Intergovernmental Receivables***

A summary of the principal items of intergovernmental receivables follows:

	<u>Amount</u>
Homestead and Rollback	\$895,326
Local Government	867,389
Gas Tax	410,999
Property Tax Reimbursement	242,402
Grants	150,961
Motor Vehicle License	91,863
Permissive Tax	81,133
Inheritance Tax	37,178
Various Cities	11,720
State of Ohio	8,949
Cuyahoga County	467
<i>Total Intergovernmental Receivables</i>	<u>\$2,798,387</u>

***Payments in Lieu of Taxes***

According to State law, the City has established a tax incremental financing district within the City under which the City has granted property tax exemptions and agreed to construct certain infrastructure improvements. The property owner has agreed to make payments to the City to help pay the costs of the infrastructure improvements. The amount of those payments generally reflects all or a portion of the property taxes which the property owners would have paid if the property had not been declared exempt. The property owner's contractual promise to make these payments in lieu of taxes generally continues until the costs of the improvement have been paid or the agreement expires, whichever occurs first. Future development by these owners or others may result in subsequent agreements to make payments in lieu of taxes and may therefore spread the costs of the improvements to a larger number of property owners. A

**City of Garfield Heights, Ohio**  
*Notes to the Basic Financial Statements*  
For the Year Ended December 31, 2010

portion of the payments in lieu of taxes the City receives is due to the Garfield Heights City School District and the Port Authority. The payable for this portion has been reported in the City's agency fund.

**Note 9 - Capital Assets**

Capital asset activity for the year ended December 31, 2010, was as follows:

	Balance 12/31/09	Additions	Deductions	Balance 12/31/10
<b>Governmental Activities</b>				
<i>Capital Assets, Not Being Depreciated</i>				
Land	\$1,573,091	\$0	\$0	\$1,573,091
Construction in Progress	759,197	0	0	759,197
<i>Total Capital Assets, Not Being Depreciated</i>	<u>2,332,288</u>	<u>0</u>	<u>0</u>	<u>2,332,288</u>
<i>Capital Assets, Being Depreciated</i>				
Buildings	15,820,113	0	0	15,820,113
Improvements Other than Buildings	4,456,578	0	0	4,456,578
Vehicles	5,664,276	0	0	5,664,276
Machinery and Equipment	4,829,544	53,785	(962)	4,882,367
Furniture and Fixtures	681,817	0	0	681,817
Infrastructure				
Roads	24,906,863	0	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>	<u>62,260,958</u>	<u>53,785</u>	<u>(962)</u>	<u>62,313,781</u>
<i>Less Accumulated Depreciation</i>				
Buildings	(5,635,851)	(338,084)	0	(5,973,935)
Improvements Other than Buildings	(2,182,563)	(124,818)	0	(2,307,381)
Vehicles	(3,058,968)	(398,812)	0	(3,457,780)
Machinery and Equipment	(3,691,734)	(216,344)	855	(3,907,223)
Furniture and Fixtures	(534,792)	(20,917)	0	(555,709)
Infrastructure				
Roads	(13,166,378)	(996,275)	0	(14,162,653)
Sanitary Sewers	(994,945)	(71,575)	0	(1,066,520)
Storm Sewers	(433,507)	(33,229)	0	(466,736)
Water Supply Lines	(161,183)	(13,233)	0	(174,416)
<i>Total Accumulated Depreciation</i>	<u>(29,859,921)</u>	<u>(2,213,287) *</u>	<u>855</u>	<u>(32,072,353)</u>
<i>Total Capital Assets being Depreciated, Net</i>	<u>32,401,037</u>	<u>(2,159,502)</u>	<u>(107)</u>	<u>30,241,428</u>
<i>Capital Assets, Net</i>	<u><u>\$34,733,325</u></u>	<u><u>(\$2,159,502)</u></u>	<u><u>(\$107)</u></u>	<u><u>\$32,573,716</u></u>



**City of Garfield Heights, Ohio**  
*Notes to the Basic Financial Statements*  
*For the Year Ended December 31, 2010*

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

General Government	\$385,065
Security of Persons and Property	428,545
Public Health Services	40,188
Transportation	1,110,685
Basic Utility Services	139,839
Leisure Time Activities	108,965
Total Depreciation Expense	<u>\$2,213,287</u>

## **Note 10 – Other Employee Benefits**

### ***Compensated Absences***

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

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

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

### ***Early Retirement Incentive***

Each City employee who was eligible to retire under any Ohio Public Employees Retirement System (OPERS) guidelines on or after June 30, 2009 and on or before October 1, 2010, was eligible to participate in an Early Retirement Incentive Plan (ERI), which added an additional 3 years of service credit for each participating employee. The City opted for a three year payment plan for all costs associated with the program for each employee who chose to participate. The program was in effect from July 1, 2009 through September 30, 2010, and 33 employees took advantage of the ERI program over the 15 month enrollment period.

**City of Garfield Heights, Ohio**  
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**Note 11 – Interfund Transfers and Balances**

*Interfund Transfers*

Transfer To	Transfer From			Totals
	General	Bond Retirement	Other Governmental Funds	
General	\$0	\$849,671	\$80,000	\$929,671
Bond Retirement	0	0	476,961	476,961
Various Improvement	0	69,841	0	69,841
Other Governmental Funds	1,976,666	106,788	0	2,083,454
<b>Totals</b>	<b>\$1,976,666</b>	<b>\$1,026,300</b>	<b>\$556,961</b>	<b>\$3,559,927</b>

During 2010, the general fund transferred out \$1,976,666 to various other governmental funds. Of this total, \$891,321 was transferred to the police pension and \$795,469 to the fire pension special revenue funds. 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 inside millage 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 general fund also transferred \$289,876 to the federal nutrition special revenue fund because this fund did not generate enough revenue to support the activities of the particular fund.

The bond retirement debt service fund transferred \$69,841 to various improvements for debt payments, \$37,198 to the equipment acquisition, \$34,316 to the recreation center and \$35,274 to the street resurfacing. The bond retirement fund transfer to the general fund in the amount of \$849,671 was to pay the local government fund notes.

The bond retirement debt service fund received transfers in of \$165,000 from the motor vehicle license tax special revenue funds, as well as \$300,000 from the storm and sanitary sewer and \$11,961 from the equipment acquisition capital projects funds to support payments on long-term debt.

The general fund received a transfer of \$80,000 from the other governmental funds to help differ costs overruns.

**City of Garfield Heights, Ohio**  
*Notes to the Basic Financial Statements*  
*For the Year Ended December 31, 2010*

**Interfund Balances**

Interfund Receivable	Interfund Payable		Total
	General	Other Governmental Funds	
<b>Special Revenue Funds</b>			
Street Lighting	\$42,920	\$0	\$42,920
Recreation	23,378	0	23,378
Street Construction, Maintenance and Repair	58,572	34,070	92,642
Indigent Drivers	350,569	0	350,569
Municipal Court Probation Services	12,210	0	12,210
Municipal Court Special Services	167,237	0	167,237
<b>Capital Project Funds</b>			
Permanent Improvement	364,455	0	364,455
Storm and Sewer	98,338	0	98,338
Municipal Court Capital Improvement	16,578	0	16,578
Street Improvement Note	496,524	0	496,524
<b>Total</b>	<b>\$1,630,781</b>	<b>\$34,070</b>	<b>\$1,664,851</b>

The interfund receivables and payables were the result of deficit cash balances in the general fund and the tax incremental financing capital projects fund, due to expenditures exceeding revenues in 2010. All interfund balances are expected to be repaid within one year.

**Note 12 - 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 2010, the City contracted with Clarendon Insurance Company for various types of insurance as follows:

Type	Coverage	Per Occurrence
Property	\$28,974,574	
Inland Marine	1,250,802	
Comprehensive General Liability	3,000,000	\$1,000,000
Police Professional Liability	1,000,000	1,000,000
Employment Practices	1,000,000	1,000,000
Vehicle Liability	1,000,000	
Public Officials Liability	1,000,000	1,000,000
Umbrella	5,000,000	5,000,000

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.

**City of Garfield Heights, Ohio**  
*Notes to the Basic Financial Statements*  
*For the Year Ended December 31, 2010*

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 \$125,000 per employee and an aggregate of \$2,857,559 per year. The benefit is paid by the fund that pays the salary for the employee and is based on historical cost information.

A health benefit claims liability of \$294,703 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, 2010 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. Once the City receives notice of the 2010 claims paid by the Bureau of Workers' Compensation, the City will reimburse the State for claims paid on the City's behalf. The payable is reclassified from claims payable to intergovernmental payable. 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 2010. The minimum premium portion of intergovernmental payable is \$378,315 and the actual claim costs are \$133,468. The maintenance of these benefits is accounted for in the general fund. Claims of \$5,444 have been accrued as a liability at December 31, 2010 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 2009 and 2010 were:

	<u>Balance</u> <u>Beginning of Year</u>	<u>Current</u> <u>Year Claims</u>	<u>Claim</u> <u>Payments</u>	<u>Compensation</u> <u>Estimate</u>	<u>Balance at</u> <u>End of Year</u>
2009	687,666	2,945,021	3,128,401	311,956	816,242
2010	816,242	3,001,453	3,147,290	(370,258)	300,147

**City of Garfield Heights, Ohio**  
*Notes to the Basic Financial Statements*  
*For the Year Ended December 31, 2010*

**Note 13 – Short-Term Obligations**

The City's short-term note activity is as follows:

	Balance 12/31/09	Additions	Reductions	Balance 12/31/10
2009 Local Government Borrowing	\$3,600,000	\$0	\$719,884	\$2,880,116
Unamortized Discount	(96,779)	0	20,023	(76,756)
Total Local Government Borrowing	<u>3,503,221</u>	<u>0</u>	<u>739,907</u>	<u>2,803,360</u>
2010 Various Purpose A 3.28%	0	5,508,000	5,508,000	0
2010 Various Purpose B 3.28%	<u>0</u>	<u>5,508,000</u>	<u>5,508,000</u>	<u>0</u>
<i>Total Short-Term Obligations</i>	<u><u>\$3,503,221</u></u>	<u><u>\$11,016,000</u></u>	<u><u>\$11,755,907</u></u>	<u><u>\$2,803,360</u></u>

On October 29, 2009, the City issued \$3,600,000 in local government borrowing notes to eliminate deficit fund balances. These notes were issued at a discount of \$100,116. The note was issued at a 4 percent interest rate and matures on October 15, 2014.

Principal and interest requirements to retire the local government note at December 31, 2010 are as follows:

	Principal	Interest
2011	\$644,000	\$109,280
2012	694,000	83,020
2013	747,000	54,740
2014	<u>795,116</u>	<u>24,300</u>
Totals	<u><u>\$2,880,116</u></u>	<u><u>\$271,340</u></u>

The City issued \$11,016,000 of Various Improvement Notes on September 23, 2010. These notes matured on November 23, 2010. The notes are backed by the full faith of City of Garfield Heights.

**City of Garfield Heights, Ohio**  
*Notes to the Basic Financial Statements*  
For the Year Ended December 31, 2010

**Note 14 - Long-Term Obligations**

Changes in long-term obligations of the City during the year ended December 31, 2010 were as follows:

	Outstanding 12/31/2009	Additions	Reductions	Outstanding 12/31/2010	Amounts Due in One Year
<b>Governmental Activities</b>					
<b>General Obligation Bonds</b>					
1998 3.65%-4.6% \$3,775,000					
Civic Center Refunding	\$1,985,000	\$0	(\$1,985,000)	\$0	\$0
1998 3.6%-4.6% \$4,460,000					
Various Improvements	2,475,000	0	(2,475,000)	0	0
2002 1.09%-5.55% \$7,300,000					
Various Improvements	6,195,000	0	(220,000)	5,975,000	230,000
2004 4.75% \$9,900,000					
Various Improvements	8,795,000	0	(406,000)	8,389,000	427,000
2006 4.00% \$1,885,000					
Various Purpose Improvement					
Refunding Bonds	1,245,000	0	(235,000)	1,010,000	240,000
Unamortized Amount on Refunding Gain	3,178	0	(252)	2,926	0
2006 4.00% \$2,307,466					
Various Purpose Refunding Bonds	1,690,701	0	(221,308)	1,469,393	228,564
Unamortized Amount on Refunding Loss	(56,481)	0	4,392	(52,089)	0
2006 4.00% \$2,790,000					
Street Improvement	2,525,000	0	(145,000)	2,380,000	155,000
Unamortized Premium	111,329	0	(8,568)	102,761	0
2010 4.28% Various Improvement					
Serial Bonds	0	1,310,000		1,310,000	0
Term Bonds	0	9,315,000	0	9,315,000	795,000
Unamortized Premium	0	182,596	(841)	181,755	0
<b>Total General Obligation Bonds</b>	<b>24,968,727</b>	<b>10,807,596</b>	<b>(5,692,577)</b>	<b>30,083,746</b>	<b>2,075,564</b>
<b>Special Assessment Bonds</b>					
2006 4.00% \$325,000					
Various Purpose Improvement					
Refunding Bonds	220,000	0	(40,000)	180,000	40,000
2006 4.00% \$872,534					
Various Purpose Refunding Bonds	639,299	0	(83,692)	555,607	86,436
<b>Total Special Assessment Bonds</b>	<b>859,299</b>	<b>0</b>	<b>(123,692)</b>	<b>735,607</b>	<b>126,436</b>
<b>Bond Anticipation Notes Payable</b>					
2009 Various Purpose ; 3.17%	5,508,000	0	(5,508,000)	0	0
<b>Other Long-Term Liabilities</b>					
Compensated Absences Payable	4,880,480	120,948	(413,894)	4,587,534	478,377
Claims Payable	447,290	200,352	(642,198)	5,444	5,444
Police and Fire Pension Liability	619,958	0	(13,893)	606,065	14,489
<b>Total Other Long-Term Liabilities</b>	<b>5,947,728</b>	<b>321,300</b>	<b>(1,069,985)</b>	<b>5,199,043</b>	<b>498,310</b>
<b>Total Governmental Activities</b>	<b>\$37,283,754</b>	<b>\$11,128,896</b>	<b>(\$12,394,254)</b>	<b>\$36,018,396</b>	<b>\$2,700,310</b>

**City of Garfield Heights, Ohio**  
*Notes to the Basic Financial Statements*  
For the Year Ended December 31, 2010

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 and claims will be paid from the general fund, recreation, street, construction, maintenance and repair and federal nutrition special revenue funds. The police and fire pension liability will be paid from taxes receipted in the police and fire pension special revenue funds. This includes an accrued liability incurred when the State of Ohio established the statewide pension system for police and firefighters.

On November 10, 2010, the City issued \$10,625,000 in general obligation bonds for the purpose of various capital improvements and to refund general obligation issues in order to take advantage of lower interest rates. An analysis of the information follows:

	1998 Civic Center Refunding	1998 Various Improvements
Outstanding at December 31, 2009	\$1,985,000	\$2,475,000
Amount Refunded	(1,740,000)	(2,245,000)
Principial Payment of Non-Refunded Portion	(245,000)	(230,000)
Outstanding at December 31, 2010	\$0	\$0

The bonds were sold at a premium of \$182,596. Proceeds of \$3,985,000 were deposited in an irrevocable trust with an escrow agent to provide for all future debt service payments on the refunded portion of the various bonds. As a result, \$3,985,000 of these bonds are considered defeased and the liability for the refunded portion of these bonds has been removed from the City's financial statements.

Although the refunding will result in the recognition of an accounting loss of \$401,306, the City in effect decreased its aggregated debt service payments by \$1,898,909 over the next 15 years and obtained an economic gain (difference between the present values of the old and new debt service payments) of \$1,839,118.

The general obligation bonds consist of serial and term bonds in the amounts of \$1,310,000 and \$9,315,000, respectively. The bonds were issued for a eighteen year period with a final maturity on December 1, 2028.

The term bonds maturing on December 1, 2016 are subject to mandatory sinking fund redemption at a redemption price of 100 percent of the principal amount to be redeemed, plus accrued interest to the date of redemption, on December 1 in the years and in the respective principal amounts as follows:

Year	Amount
2011	\$795,000
2012	845,000
2013	865,000
2014	895,000
2015	910,000
Total	\$4,310,000

The remaining principal amount of the term bonds (\$950,000) will mature at the stated maturity on December 1, 2016.

**City of Garfield Heights, Ohio**  
*Notes to the Basic Financial Statements*  
*For the Year Ended December 31, 2010*

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The term bonds maturing on December 1, 2020 are subject to mandatory sinking fund redemption at a redemption price of 100 percent of the principal amount to be redeemed, plus accrued interest to the date of redemption, on December 1 in the years and in the respective principal amounts as follows:

<u>Year</u>	<u>Amount</u>
2019	<u><u>\$355,000</u></u>

The remaining principal amount of the term bonds (\$370,000) will mature at the stated maturity on December 1, 2020.

The term bonds maturing on December 1, 2025 are subject to mandatory sinking fund redemption at a redemption price of 100 percent of the principal amount to be redeemed, plus accrued interest to the date of redemption, on December 1 in the years and in the respective principal amounts as follows:

<u>Year</u>	<u>Amount</u>
2021	\$385,000
2022	405,000
2023	425,000
2024	445,000
Total	<u><u>\$1,660,000</u></u>

The remaining principal amount of the term bonds (\$470,000) will mature at the stated maturity on December 1, 2025.

The term bonds maturing on December 1, 2028 are subject to mandatory sinking fund redemption at a redemption price of 100 percent of the principal amount to be redeemed, plus accrued interest to the date of redemption, on December 1 in the years and in the respective principal amounts as follows:

<u>Year</u>	<u>Amount</u>
2026	\$380,000
2028	400,000
Total	<u><u>\$780,000</u></u>

The remaining principal amount of the term bonds (\$420,000) will mature at the stated maturity on December 1, 2028.

The City's overall legal debt margin was \$19,346,760 at December 31, 2010. Principal and interest requirements to retire long-term obligations outstanding at December 31, 2010 are as follows:



**City of Garfield Heights, Ohio**  
*Notes to the Basic Financial Statements*  
*For the Year Ended December 31, 2010*

	General Obligation Bonds		Special Assessment Bonds		Police and Fire Pension	
	Principal	Interest	Principal	Interest	Principal	Interest
2011	\$2,075,564	\$1,313,107	\$126,436	\$33,566	\$14,489	\$25,606
2012	2,178,820	1,209,716	134,180	27,589	15,111	24,984
2013	2,259,076	1,127,821	136,924	20,308	15,760	24,334
2014	2,352,588	1,038,286	147,412	14,675	16,437	23,657
2015	2,158,844	945,894	100,156	7,628	17,143	22,951
2016-2020	8,913,501	3,489,726	90,499	3,622	97,413	103,058
2021-2025	7,715,000	1,528,289	0	0	120,210	80,262
2026-2030	2,195,000	197,250	0	0	148,339	52,133
2031-2035	0	0	0	0	161,163	17,455
Totals	<u>\$29,848,393</u>	<u>\$10,850,089</u>	<u>\$735,607</u>	<u>\$107,388</u>	<u>\$606,065</u>	<u>\$374,440</u>

**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 126 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 2010. 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 2010, 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.

**City of Garfield Heights, Ohio**  
*Notes to the Basic Financial Statements*  
*For the Year Ended December 31, 2010*

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**Note 16 - Defined Benefit Pension Plans**

***Ohio Public Employees Retirement System***

Plan Description - The City participates in the Ohio Public Employees Retirement System (OPERS). OPERS administers three separate pension plans. The Traditional Pension Plan is a cost-sharing, multiple-employer defined benefit pension plan. The Member-Directed Plan is a defined contribution plan in which the member invests both member and employer contributions (employer contributions vest over five years at 20 percent per year). Under the Member-Directed Plan, members accumulate retirement assets equal to the value of the member and vested employer contributions plus any investment earnings. The Combined Plan is a cost-sharing, multiple-employer defined benefit pension plan. Under the Combined Plan, OPERS invests employer contributions to provide a formula retirement benefit similar in nature to, but less than, the Traditional Pension Plan benefit. Member contributions, the investment of which is self-directed by the members, 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 Pension 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. Interested parties may obtain a copy by writing to OPERS, 277 East Town Street, Columbus, Ohio 43215-4642, or by calling 614-222-5601 or 800-222-7377.

Funding Policy – The Ohio Revised Code provides statutory authority for member and employer contributions and currently limits the employer contribution to a rate not to exceed 14 percent of covered payroll for state and local employer units and 18.1 percent of covered payroll for law enforcement and public safety employer units. Member contribution rates, as set forth in the Ohio Revised Code, are not to exceed 10 percent of covered payroll. For the year ended December 31, 2010, members in state and local classifications contributed 10 percent of covered payroll while public safety and law enforcement members contributed 10.5 percent and 11.1 percent, respectively. While members in the state and local divisions may participate in all three plans, law enforcement and public safety divisions exist only within the Traditional Pension Plan. For 2010, member and employer contribution rates were consistent across all three plans.

The City's contribution rate for 2010 was 14.00 percent, except for those plan members in law enforcement or public safety, for whom the City's contribution was 17.87 percent of covered payroll. The portion of employer contributions used to fund pension benefits is net of post-employment health care benefits. The portion of employer contribution allocated to health care for members in the Traditional Plan was 5.5 percent from January 1 through February 28, 2010, and 5 percent from March 1 through December 31, 2010. The portion of employer contributions allocated to health care for members in the Combined Plan was 4.73 percent from January 1 through February 28, 2010, and 4.23 percent from March 1 through December 31, 2010. Employer contribution rates are actuarially determined.

The City's required contributions for pension obligations to the Traditional and Combined Plans for the years ended December 31, 2010, 2009, and 2008 was \$883,464, \$961,670, and \$477,394, respectively. For 2010, 94.92 percent has been contributed with the balance being reported as an intergovernmental payable. The full amount has been contributed for 2009 and 2008. Contributions to the Member-Directed Plan for 2010 were \$18,699 made by the City and \$13,357 made by the plan members.

**City of Garfield Heights, Ohio**  
*Notes to the Basic Financial Statements*  
*For the Year Ended December 31, 2010*

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***Ohio Police and Fire Pension Fund***

Plan Description – 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 OP&F, 140 East Town Street, Columbus, Ohio 43215-5164.

Funding Policy – The Ohio Revised Code requires plan members to contribute 10.0 percent of their annual covered salary, while employers are required to contribute 19.5 percent for police officers and 24.0 percent for firefighters.

The OP&F Pension Fund is authorized by the Ohio Revised Code to allocate a portion of the employer contributions to retiree health care benefits. The portion of employer contributions used to fund pension benefits was 12.75 percent of covered payroll for police officers and 17.25 percent of covered payroll for firefighters. The City's contributions to OP&F for police and firefighters were \$552,292 and 549,876 for the year ended December 31, 2010, \$534,473 and \$542,641 for the year ended December 31, 2009, and \$545,235 and \$529,565 for the year ended December 31, 2008, respectively. For 2010, 73.11 percent for police and 72.57 percent for firefighters has been contributed with the balance for both police and firefighters being reported as an intergovernmental payable. The full amount has been contributed for 2009 and 2008.

In addition to current contributions, the City pays installments on the accrued liability incurred when the State of Ohio established the statewide pension system for police and fire fighters in 1967. As of December 31, 2010, the unfunded liability of the City was \$606,065 payable in semi-annual payments through the year 2035. This is an accounting liability of the City which will not vary. The liability is reported as "long-term liabilities" in the governmental activities column on the statement of net assets.

**Note 17 - Postemployment Benefits**

***Ohio Public Employees Retirement System***

Plan Description – Ohio Public Employees Retirement System (OPERS) administers three separate pension plans: The Traditional Pension Plan—a cost sharing, multiple-employer defined benefit pension plan; the Member-Directed Plan—a defined contribution plan; and the Combined Plan—a cost sharing, multiple employer defined benefit pension plan that has elements of both a defined benefit and defined contribution plan.

OPERS maintains a cost-sharing multiple-employer defined benefit post-employment health care plan for qualifying members of both the Traditional Pension and the Combined Plans. Members of the Member-Directed Plan do not qualify for ancillary benefits, including post-employment health care coverage. The plan includes a medical plan, prescription drug program and Medicare Part B premium reimbursement.

In order to qualify for post-employment health care coverage, age-and-service retirees under the Traditional Pension and Combined Plans must have 10 or more years of qualifying Ohio service credit. Health care coverage for disability benefit recipients and qualified survivor benefit recipients is available. The Ohio Revised Code permits, but does not mandate, OPERS to provide health care benefits to its eligible members and beneficiaries. Authority to establish and amend benefits is provided in Chapter 145 of the Ohio Revised Code.

**City of Garfield Heights, Ohio**  
*Notes to the Basic Financial Statements*  
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Disclosures for the health care plan are presented separately in the OPERS financial report which 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.

Funding Policy – The post-employment health care plan was established under, and is administrated in accordance with, Internal Revenue Code 401(h). The Ohio Revised Code provides the statutory authority requiring public employers to fund post retirement health care through contributions to OPERS. A portion of each employer’s contribution to OPERS is set aside for the funding of post-retirement health care.

Employer contribution rates are expressed as a percentage of the covered payroll of active members. In 2010, state and local employers contributed at a rate of 14.0 percent of covered payroll, and public safety and law enforcement employers contributed at 17.87 percent. The Ohio Revised Code currently limits the employer contribution to a rate not to exceed 14 percent of covered payroll for state and local employer units and 18.1 percent of covered payroll for law and public safety employer units.

Each year, the OPERS Retirement Board determines the portion of the employer contribution rate that will be set aside for funding of post-employment health care benefits. The portion of employer contributions allocated to health care for members in the Traditional Plan was 5.5 percent from January 1 through February 28, 2010, and 5 percent from March 1 through December 31, 2010. The portion of employer contributions allocated to health care for members in the Combined Plan was 4.73 percent from January 1 through February 28, 2010, and 4.23 percent from March 1 through December 31, 2010.

The OPERS Retirement Board is also authorized to establish rules for the payment of a portion of the health care benefits provided, by the retiree or their surviving beneficiaries. Payment amounts vary depending on the number of covered dependents and the coverage selected. Active members do not make contributions to the post-employment health care plan.

The City’s contributions allocated to fund post-employment health care benefits for the years ended December 31, 2010, 2009 and 2008 were \$510,169, \$695,361, and \$477,394, respectively. For 2010, 94.92 percent has been contributed with the balance being reported as an intergovernmental payable. The full amount has been contributed for 2009 and 2008.

The Health Care Preservation Plan (HCPP) adopted by the OPERS Retirement Board on September 9, 2004, was effective January 1, 2007. Member and employer contribution rates increased on January 1 of each year from 2006 to 2008. Rates for law and public safety employers increased over a six year period beginning on January 1, 2006, with a final rate increase on January 1, 2011. These rate increases allowed additional funds to be allocated to the health care plan.

***Ohio Police and Fire Pension Fund***

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

OP&F provides access to post-retirement health care coverage for 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. The health care coverage provided by OP&F meets the definition of an Other Post-Employment Benefit (OPEB) as described in GASB Statement No. 45.

**City of Garfield Heights, Ohio**  
*Notes to the Basic Financial Statements*  
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The Ohio Revised Code allows, but does not mandate OP&F to provide OPEB benefits. Authority for the OP&F Board of Trustees to provide health care coverage to eligible participants and to establish and amend benefits is codified in Chapter 742 of the Ohio Revised Code.

OP&F issues a publicly available financial report that includes financial information and required supplementary information for the plan. That report may be obtained by writing to OP&F, 140 East Town Street, Columbus, Ohio 43215-5164.

Funding Policy – The Ohio Revised Code provides for contribution requirements of the participating employers and of plan members to the OP&F defined benefit pension plan. Participating employers are required by Ohio Revised Code to contribute to the pension plan at rates expressed as percentages of the payroll of active pension plan members, currently, 19.5 percent and 24.0 percent of covered payroll for police and fire employers, respectively. Active members do not make contributions to the OPEB Plan.

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

The Board of Trustees is authorized to allocate a portion of the total employer contributions made into the pension plan to the Section 115 trust and the Section 401(h) account as the employer contribution for retiree health care benefits. For the year ended December 31, 2010, the employer contribution allocated to the health care plan was 6.75 percent of covered payroll. The amount of employer contributions allocated to the health care plan each year is subject to the Trustees' primary responsibility to ensure that pension benefits are adequately funded and is limited by the provisions of Sections 115 and 401(h).

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

The City's contributions to OP&F which were allocated to fund post-employment health care benefits for police and firefighters were \$292,390 and \$215,169 for the year ended December 31, 2010, \$282,956 and \$212,338 for the year ended December 31, 2009, and \$288,654 and \$207,221 for the year ended December 31, 2008. For 2010, 74.52 percent has been contributed for police and 72.57 percent has been contributed for firefighters with the balance for both police and firefighters being report as an intergovernmental payable. The full amount has been contributed for 2009 and 2008.

### **Note 18 – Fiscal Emergency**

The Auditor of State's office placed the City in fiscal emergency on October 14, 2008 in accordance with Section 118.03, Ohio Revised Code. The declaration resulted in the establishment of a financial planning and supervision commission. The Commission is comprised of a representative of the Office of Budget and Management, a representative of the Treasurer of State, the City Mayor, the President of City Council, and three individuals appointed by the Governor who are residents of the City and meet certain criteria.

In accordance with Section 118.06 of the Ohio Revised Code, the City is required to submit to the Commission a financial recovery plan for the City which outlines the measures to be taken to eliminate the fiscal emergency conditions. The City adopted its initial financial recovery plan on April 23, 2009.

**City of Garfield Heights, Ohio**  
*Notes to the Basic Financial Statements*  
*For the Year Ended December 31, 2010*

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A city is placed into fiscal emergency when any one of six conditions is present. For the City of Garfield Heights, one of the six conditions was present at the date of the Auditor of State's determination. The condition present in the City was deficit fund balances. Under Section 118.03(A)(5) of the Revised Code, the aggregate sum of all deficit funds at the end of the preceding fiscal year, less any transferable balance in the general fund and in any special revenue fund that exceed one-sixth of the general fund budget and the receipts of the deficit funds is a fiscal emergency condition. As of December 31, 2007, the City had deficit fund balances in the following funds: general fund, permanent improvement fund, firemen's relief pension fund, water maintenance estimate and repair fund, federal nutrition fund, community development revenue sharing fund and the revolving city project fund. The Auditor of State's calculation determined the total unprovided portion of aggregate deficit funds was \$625,116 for the year ended December 31, 2007.

During 2009 and continuing into 2010, the City has taken steps to regain financial stability. As of December 31, 2010, the general fund continues to have a negative fund balance. In addition, the City was able to make all required debt payments during 2010. The City has generated additional revenues through a full year's collection of their garbage collection fees.

**Note 19 – Subsequent Event**

Wade Trim, Inc. was the City's engineering firm from 2001 through 2010, at which time the newly elected administration opted to release this firm from its duties. At the time of the removal of the firm as the City's engineer, there were many unpaid invoices dating back quite some time. Many of these invoices were being contested by the City's finance Director at that time. During the transition of administrations, Wade Trim attempted to make collection on the old stale dated invoices through the new administration. The Finance Director, carried over through this transition period, objected to many of the unpaid invoices, and thus would not certify payment of the items. Eventually, Wade Trim Inc. filed suit for payment of the unpaid invoicing in the amount of \$721,521.78, plus pre and post judgment interest. The City counterclaimed against Wade Trim in the action making allegations in connection with the Outstanding Invoices and the Wade Trim Services. On September 21, 2011 City Council approved a settlement agreement between the parties, whereby the City would pay Wade Trim, Inc. the sum of \$485,000, paid out over a 4 year period. Payment dates and amounts were set in the settlement agreement as follows: On or Before September 30, 2011 the sum of \$125,000, February 28, 2012 the sum of \$120,000, February 28, 2013 the sum of \$120,000, and February 28, 2014 the sum of \$120,000.

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**City of Garfield Heights, Ohio**  
*Management's Discussion and Analysis*  
*For the Year Ended December 31, 2009*  
*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, 2009. 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 and the notes to the basic financial statements to enhance their understanding of the City's financial performance.

### **Financial Highlights**

- In October 2008, the State Auditor's Office placed the City of Garfield Heights into Fiscal Emergency. Since this designation, the City has worked to put in place a plan of action to eliminate this situation. In April 2009, the State Financial Oversight Commission approved the City's plan of action, and if all variables proceed as planned, the City of Garfield Heights will emerge from fiscal emergency with over a \$2.5 million balance at the end of 5 years.
- The City issued \$3.6 million in Local Government Borrowing Notes in 2009. These notes have a 4 percent interest rate and are payable over a five year period. The proceeds of these notes were used to alleviate deficit funds in the City. The City was also able to reissue various purpose notes with a lower interest rate of 3.17 percent, which has helped to lower interest and fiscal charges.
- The City's early retirement plan, which was instituted as a part of the financial recovery plan and approved by both the City Council and the State Financial Oversight Commission, has been a success with over 30 employees taking advantage of the plan and thus reducing the City's staff and payroll in the process.

### **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 2009?" 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.



**City of Garfield Heights, Ohio**  
*Management's Discussion and Analysis*  
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These two statements report the City's net assets and the changes in those assets. This change in assets is important because it tells the reader whether, for the City as a whole, the financial position of the City has improved or diminished. However, in evaluating the overall position of the City, non-financial information such as changes in the City's tax base and the condition of City capital assets will also need to be evaluated.

In the Statement of Net Assets and the Statement of Activities, all of the City's activities are reported as Governmental Activities, which include all of the City's services including police, fire, administration and all 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 56. 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 fund, the bond retirement (debt service) fund and the various improvement capital projects fund. All other funds of the City are grouped together in the category of Other Governmental 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.

***Fiduciary Funds*** are used to account for resources held for the benefit of parties outside the government. Fiduciary funds are not reflected in the government-wide financial statements because the resources of those funds are not available to support the City of Garfield Heights' own programs.

**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 2009 compared to 2008.

(Table 1)  
Net Assets

	Governmental Activities		
	2009	2008	Change
<b>Assets</b>			
Current and Other Assets	\$21,361,382	\$18,891,731	\$2,469,651
Capital Assets, Net	34,733,325	36,722,462	(1,989,137)
<i>Total Assets</i>	\$56,094,707	\$55,614,193	\$480,514

**City of Garfield Heights, Ohio**  
*Management's Discussion and Analysis*  
*For the Year Ended December 31, 2009*  
*Unaudited*

(Table 1)  
Net Assets (continued)

	Governmental Activities		
	2009	2008	Change
<b>Liabilities</b>			
Current and Other Liabilities	\$20,007,700	\$14,939,540	(\$5,068,160)
Long-Term Liabilities:			
Due Within One Year	2,162,066	2,442,271	280,205
Due in More than One Year	35,121,688	37,395,995	2,274,307
<i>Total Liabilities</i>	57,291,454	54,777,806	(2,513,648)
<b>Net Assets</b>			
Invested in Capital Assets, Net of Related Debt	12,474,388	12,785,805	(311,417)
Restricted:			
Capital Projects	610,918	1,199,985	(589,067)
Debt Service	1,413,663	1,305,602	108,061
Street Lighting	221,840	221,840	0
Courts	86,821	94,930	(8,109)
Other Purposes	699,556	576,535	123,021
Unrestricted (Deficit)	(16,703,933)	(15,348,310)	(1,355,623)
<i>Total Net Assets</i>	(\$1,196,747)	\$836,387	(\$2,033,134)

By comparing assets and liabilities, one can see the position of the City has decreased as evidenced by the decrease in net assets. Management continues to diligently plan expenses, staying carefully within the City's revenues in an effort to maintain excellent levels of service within the constraints of the budget.

In order to further understand what makes up the changes in net assets for the current year, the following table gives readers further details regarding the results of activities for the current year. Table 2 shows total revenues, expenses and changes in net assets for the fiscal year 2009 and 2008.

Table 2  
Changes in Net Assets

	Governmental Activities		
	2009	2008	Change
<b>Revenues</b>			
<i>Program Revenues</i>			
Charges for Services	\$4,226,576	\$4,330,232	(\$103,656)
Operating Grants	1,445,411	1,501,782	(56,371)
Capital Grants and Assessments	79,872	106,087	(26,215)
<i>Total Program Revenues</i>	\$5,751,859	\$5,938,101	(\$186,242)

**City of Garfield Heights, Ohio**  
*Management's Discussion and Analysis*  
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Table 2  
Changes in Net Assets (continued)

	Governmental Activities		
	2009	2008	Change
<b>General Revenues</b>			
Property Taxes	\$10,654,751	\$9,878,792	\$775,959
Municipal Income Taxes	11,107,169	11,433,844	(326,675)
Grants and Entitlements not Restricted to Specific Programs	4,693,727	4,457,669	236,058
Interest	4,356	25,680	(21,324)
Franchise Fees	256,283	248,830	7,453
Payments in Lieu of Taxes	124,806	147,784	(22,978)
Gain on Sale of Capital Assets	0	40,290	(40,290)
Other	504,904	538,490	(33,586)
<b>Total General Revenues</b>	<b>27,345,996</b>	<b>26,771,379</b>	<b>574,617</b>
<b>Total Revenues</b>	<b>33,097,855</b>	<b>32,709,480</b>	<b>388,375</b>
<b>Program Expenses</b>			
General Government	10,826,356	8,686,388	(2,139,968)
Security of Persons and Property	12,904,431	12,550,892	(353,539)
Public Health Services	506,283	825,124	318,841
Transportation	4,051,419	3,882,715	(168,704)
Community Development	148,951	154,628	5,677
Basic Utility Services	3,365,865	2,661,598	(704,267)
Leisure Time Activities	1,766,722	1,380,602	(386,120)
Interest and Fiscal Charges	1,560,962	1,607,514	46,552
<b>Total Program Expenses</b>	<b>35,130,989</b>	<b>31,749,461</b>	<b>(3,381,528)</b>
<b>Increase (Decrease) in Net Assets</b>	<b>(2,033,134)</b>	<b>960,019</b>	<b>(2,993,153)</b>
Net Assets Beginning of Year	836,387	(123,632)	960,019
<b>Net Assets End of Year</b>	<b>(\$1,196,747)</b>	<b>\$836,387</b>	<b>(\$2,033,134)</b>

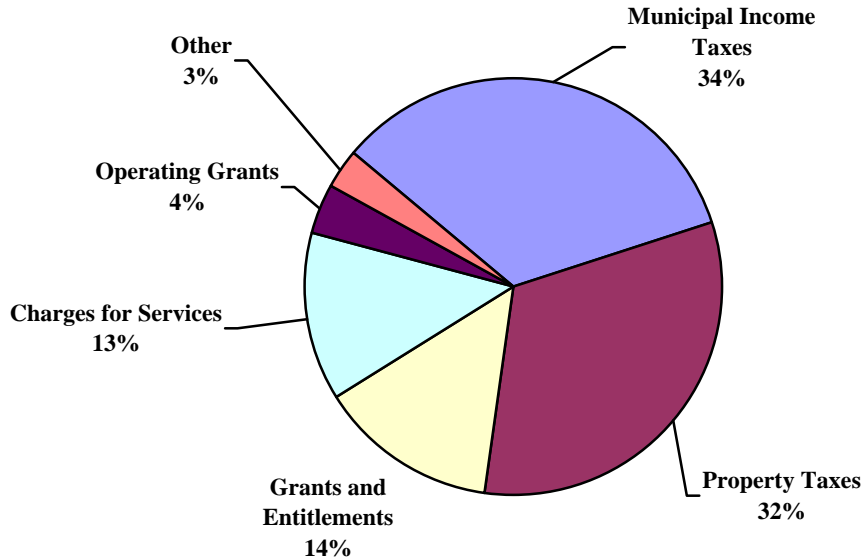
**Governmental Activities**

Several revenue sources fund our governmental activities, with municipal income taxes being the largest. Municipal income taxes decreased in 2009, due to high unemployment rates and business layoffs within the City. 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. Property taxes account for the second largest revenue source and collections increased due to an increase in estimated taxes for 2010. Grants and entitlements increased due to the availability of more grants to the City. Charges for services decreased due to a decrease in citizens utilizing City programs and program cuts. Franchise fees and payment in lieu of taxes had immaterial changes from 2008. Interest income decreased in 2009 due to the availability of cash for investments and a decline in interest rates.

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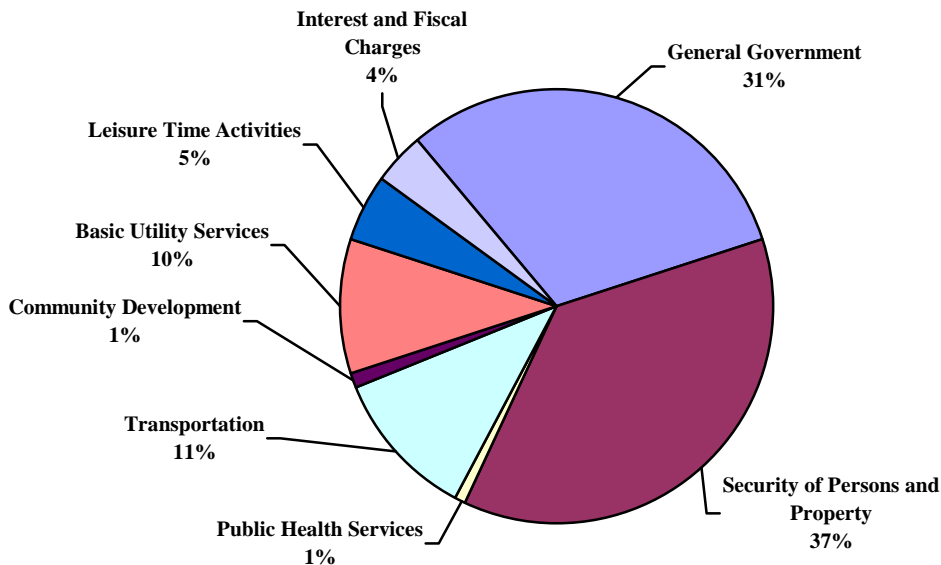
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**2009 Revenues**



Major expense activities, under the accrual basis of accounting, included: security of persons and property expenses and general government programs. Security of persons and property spending was in line with previous years due to careful budgeting. General government and leisure time activities expenses went up due to the one-time cost of an early retirement incentive plan in 2009. A rise in the expenses of the basic utility services program can be attributed to more sewer projects in 2009. Public health services expenses went down due to reductions in services.

**2009 Expenses**



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**The City's Funds**

Information about the City's major governmental funds begins on page 63. These funds are accounted for using the modified accrual basis of accounting. Review of these statements reveals that all governmental funds had total revenues of \$32,034,879 and total expenditures of \$45,619,548. The net effect for all governmental funds was a deficit fund balance of \$6,380,055. This deficit fund balance represents a decrease from the deficit fund balance that the City had at the end of 2008, and this is due to the implementation of the early retirement incentive program, offset by the issuance of local government borrowing notes.

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, the economic slow down, and the more recent housing crisis 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 \$6,015,376 at year end. There were many major factors that resulted in this negative fund balance. Some of these were regulatory changes such as: 1) high unemployment rate that resulted in lower municipal tax 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, security of persons and property, leisure time activities and basic utility services programs.

***General Fund Budgeting Highlights***

The City's budget is prepared according to Ohio law and is based on accounting for certain transactions on a basis of cash receipts, disbursements and encumbrances. The most significant budgeted fund is the general fund.

During the course of 2009, the City did not amend its general fund budget. All recommendations for any budget change come from the City Finance Director to the Finance Committee of Council for review before going to the whole Council for ordinance enactment on the change. The City does not allow budget changes that modify line items within departments without Council approval. With the general fund supporting many of the major activities such as the police and fire departments, as well as most legislative and executive activities, the general fund is monitored closely for possible revenue shortfalls or over spending by individual departments.

For the general fund, original and final budgeted revenues were \$23,055,661, and actual revenue collections were \$21,963,966. The major factor contributing to the decrease of actual revenues from the budgeted amounts was a \$1,119,645 decreases in municipal income taxes compared to the final budgeted revenue amount. The decreases can all be attributed to the overall poor economy. The City of Garfield Heights' ending balance in the general fund was \$2,067,191 below the final budgeted amount, thus resulting in a deficit fund balance of \$1,769,187. 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.

**City of Garfield Heights, Ohio**  
*Management's Discussion and Analysis*  
*For the Year Ended December 31, 2009*  
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**Capital Assets and General Long-Term Obligations**

*Capital Assets*

Table 3  
 Capital Assets at Year End  
 (Net of Depreciation)

	Governmental Activities		
	2009	2008	Change
Land	\$1,573,091	\$1,538,942	\$34,149
Construction in Progress	759,197	626,932	132,265
Buildings and Improvements	12,458,277	12,933,957	(475,680)
Vehicles	2,605,308	2,922,608	(317,300)
Machinery and Equipment	1,137,810	1,363,105	(225,295)
Furniture and Fixtures	147,025	169,991	(22,966)
Infrastructure	16,052,617	17,166,927	(1,114,310)
Total	\$34,733,325	\$36,722,462	(\$1,989,137)

Total capital assets for the City of Garfield Heights as of December 31, 2009, amounted to \$34,733,325, which was a decrease of \$1,989,137 from 2008. There were additions to land, construction in progress, vehicles and machinery and equipment, offset by depreciation of \$2,266,985 which accounted for the decrease. See Note 9 for additional information on the City's capital assets.

***Long Term Obligations***

The City's overall legal debt margin at December 31, 2009 was \$18,622,925. Table 4 indicates the total outstanding long-term obligations of the City.

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

	Governmental Activities		
	2009	2008	Change
General Obligation Bonds	\$24,968,727	\$26,939,207	(\$1,970,480)
Special Assessment Bonds	859,299	975,247	(115,948)
Notes	5,508,000	5,508,000	0
Police and Fire Pension Liability	619,958	633,278	(13,320)
Total	\$31,955,984	\$34,055,732	(\$2,099,748)

**City of Garfield Heights, Ohio**  
*Management's Discussion and Analysis*  
*For the Year Ended December 31, 2009*  
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At the end of 2009, a various improvement note was outstanding. One of the City's major funds is the bond retirement fund, which is specifically set up for the accumulation and payment of the City's annual principal and interest requirements of the general obligation and special assessment bonds identified above.

The police and fire loan shown in Table 4 above, in the amount of \$619,958 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 over \$40,000 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. Three new major road renovation projects are in the planning phases. These are the Rockside Road, Broadway Avenue and McCracken Road projects. The major funding for these projects will come through state and federal highway dollars and grant funds. Additionally, over the past ten years, the City has converted two of the last three septic sanitary tank areas to sanitary sewer service. The third of these septic areas has been amassed into a plot that is proposed for the future development project known as the Bridgeview Crossing Project. 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.

In 2008 and 2009 the City also added a new 100 foot telescopic aerial ladder truck to our fire department and 10 new police cruisers in our police department for a total investment of about \$1,000,000.

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. Another factor that the City expects to increase development in this district over the next five to ten years is the decision 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 City of Garfield Heights' border. Access to the Interstate Highway system from this location is via the Broadway Avenue entrance, which is in the City. 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 Street/Broadway Intersection and the addition of another traffic lane in Broadway Avenue from East 131 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

**City of Garfield Heights, Ohio**  
*Management's Discussion and Analysis*  
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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.

City View Center is now the home to many new retail establishments and restaurants such as Giant Eagle, A J Wright, Ruby Tuesday, Applebees, Starbucks, and many more. It has been estimated that this development has helped to retain and/or create between 500 and 1,000 jobs in the City. In addition to the development on the south 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 north 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. Although both of these development areas have been subjected to financial difficulties due to the current economic conditions affecting our country, the City still holds the belief that this development will have a significant impact upon the future financial position of the City of Garfield Heights.

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, 2009. To alleviate the financial shortfall, the City has developed a strategy to stabilize its cash shortfall in the aforementioned funds. See Note 18 for further information.

**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 Ron Tomola, Finance Director, City of Garfield Heights, 5407 Turney Road, Garfield Heights, Ohio 44125, 216-475-1100.



## Basic Financial Statements

**City of Garfield Heights, Ohio**

*Statement of Net Assets*

*December 31, 2009*

	<u>Governmental Activities</u>
<b>Assets</b>	
Equity in Pooled Cash and Cash Equivalents	\$448,798
Cash and Cash Equivalents With Fiscal Agents	183
Accounts Receivable	1,437,098
Intergovernmental Receivable	2,663,709
Prepaid Items	29,209
Materials and Supplies Inventory	43,249
Municipal Income Taxes Receivable	2,727,720
Property Taxes Receivable	12,714,252
Special Assessments Receivable	859,299
Payment in Lieu of Taxes Receivable	148,443
Deferred Charges	289,422
Nondepreciable Capital Assets	2,332,288
Depreciable Capital Assets, Net	<u>32,401,037</u>
<i>Total Assets</i>	<u>56,094,707</u>
<b>Liabilities</b>	
Accounts Payable	306,149
Contracts Payable	419,266
Accrued Wages	538,276
Intergovernmental Payable	1,670,045
Early Retirement Incentive Payable	1,273,696
Deferred Revenue	11,772,403
Accrued Interest Payable	155,692
Notes Payable	3,503,221
Claims Payable	368,952
Long-Term Liabilities:	
Due Within One Year	2,162,066
Due In More Than One Year	<u>35,121,688</u>
<i>Total Liabilities</i>	<u>57,291,454</u>
<b>Net Assets</b>	
Invested in Capital Assets, Net of Related Debt	12,474,388
Restricted for:	
Capital Projects	610,918
Debt Service	1,413,663
Street Lighting	221,840
Courts	86,821
Other Purposes	699,556
Unrestricted (Deficit)	<u>(16,703,933)</u>
<i>Total Net Assets</i>	<u><u>(\$1,196,747)</u></u>

See accompanying notes to the basic financial statements

**City of Garfield Heights, Ohio**  
*Statement of Activities*  
For the Year Ended December 31, 2009

	Program Revenues				Net (Expense) Revenue and Changes in Net Assets
	Expenses	Charges for Services	Operating Grants	Capital Grants and Assessments	Governmental Activities
<b>Governmental Activities:</b>					
General Government	\$10,826,356	\$1,786,764	\$0	\$79,751	(\$8,959,841)
Security of Persons and Property	12,904,431	1,661,535	59,732	0	(11,183,164)
Public Health Services	506,283	11,676	25,096	0	(469,511)
Transportation	4,051,419	185,640	1,273,930	0	(2,591,849)
Community Development	148,951	22,536	0	0	(126,415)
Basic Utility Services	3,365,865	268,387	76,654	121	(3,020,703)
Leisure Time Activities	1,766,722	290,038	9,999	0	(1,466,685)
Interest and Fiscal Charges	1,560,962	0	0	0	(1,560,962)
<i>Totals</i>	<u>\$35,130,989</u>	<u>\$4,226,576</u>	<u>\$1,445,411</u>	<u>\$79,872</u>	<u>(29,379,130)</u>
<b>General Revenues</b>					
Property Taxes Levied for:					
					7,921,552
					480,341
					125,303
					125,303
					62,653
					1,521,912
					417,687
Municipal Income Tax Levied for:					
					7,117,834
					1,115,788
					1,115,789
					641,970
					1,115,788
Grants and Entitlements not					
					4,693,727
					124,806
					4,356
					256,283
					504,904
					<u>27,345,996</u>
					(2,033,134)
					<u>836,387</u>
					<u>(\$1,196,747)</u>

See accompanying notes to the basic financial statements

**City of Garfield Heights, Ohio**

*Balance Sheet*

*Governmental Funds*

*December 31, 2009*

	General	Bond Retirement	Various Improvement	Other Governmental Funds	Total Governmental Funds
<b>Assets</b>					
Equity in Pooled Cash and Cash Equivalents	\$0	\$157,486	\$0	\$291,312	\$448,798
Cash and Cash Equivalents					
With Fiscal Agents	0	0	183	0	183
Accounts Receivable	1,374,095	0	0	63,003	1,437,098
Intergovernmental Receivable	1,796,521	121,784	0	745,404	2,663,709
Prepaid Items	25,757	0	0	3,452	29,209
Materials and Supplies Inventory	29,437	0	0	13,812	43,249
Interfund Receivable	0	0	0	1,086,318	1,086,318
Payments in Lieu of Taxes Receivable	0	0	0	148,443	148,443
Municipal Income Taxes Receivable	2,045,791	190,940	0	490,989	2,727,720
Property Taxes Receivable	9,817,001	1,612,540	0	1,284,711	12,714,252
Special Assessments Receivable	0	859,299	0	0	859,299
<i>Total Assets</i>	<u>\$15,088,602</u>	<u>\$2,942,049</u>	<u>\$183</u>	<u>\$4,127,444</u>	<u>\$22,158,278</u>
<b>Liabilities</b>					
Accounts Payable	\$187,612	\$0	\$0	\$118,537	\$306,149
Contracts Payable	352,963	0	0	66,303	419,266
Accrued Wages	466,916	0	0	71,360	538,276
Early Retirement Incentive Payable	983,796	0	0	289,900	1,273,696
Intergovernmental Payable	734,885	0	0	935,160	1,670,045
Interfund Payable	1,086,318	0	0	0	1,086,318
Deferred Revenue	13,452,512	2,733,674	0	3,160,894	19,347,080
Accrued Interest Payable	25,330	0	0	0	25,330
Notes Payable	3,503,221	0	0	0	3,503,221
Claims Payable	310,425	0	0	58,527	368,952
<i>Total Liabilities</i>	<u>21,103,978</u>	<u>2,733,674</u>	<u>0</u>	<u>4,700,681</u>	<u>28,538,333</u>
<b>Fund Balances</b>					
Reserved for Encumbrances	1,389	0	0	34,277	35,666
Unreserved, Undesignated, Reported in:					
General Fund (Deficit)	(6,016,765)	0	0	0	(6,016,765)
Special Revenue Funds (Deficit)	0	0	0	(700,044)	(700,044)
Debt Service Fund	0	208,375	0	0	208,375
Capital Projects Funds	0	0	183	92,530	92,713
<i>Total Fund Balances (Deficit)</i>	<u>(6,015,376)</u>	<u>208,375</u>	<u>183</u>	<u>(573,237)</u>	<u>(6,380,055)</u>
<i>Total Liabilities and Fund Balances</i>	<u>\$15,088,602</u>	<u>\$2,942,049</u>	<u>\$183</u>	<u>\$4,127,444</u>	<u>\$22,158,278</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, 2009*

<b>Total Governmental Fund Balances</b>	(\$6,380,055)
 <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.	34,733,325
Other long-term assets are not available to pay for current-period expenditures and therefore are deferred in the funds:	
Property Taxes	2,500,292
Municipal Income Taxes	2,000,733
Intergovernmental	2,149,917
Charges for Services	64,436
Special Assessments	859,299
Total	7,574,677
In the statement of activities, interest is accrued on outstanding bonds, whereas in governmental funds, an interest expenditure is reported when due.	(130,362)
Bond issuance costs are considered deferred charges and will be amortized over the life of the bonds on the statement of net assets.	289,422
Long-term liabilities are not due and payable in the current period and therefore are not reported in the funds:	
General Obligation Bonds	(24,968,727)
Special Assessment Bonds	(859,299)
Compensated Absences	(4,880,480)
Claims Payable	(447,290)
Police and Fire Liability	(619,958)
Notes Payable	(5,508,000)
Total	(37,283,754)
<i>Net Assets of Governmental Activities</i>	(\$1,196,747)

See accompanying notes to the basic financial statements

**City of Garfield Heights, Ohio**  
*Statement of Revenues, Expenditures and Changes in Fund Balances*  
*Governmental Funds*  
*For the Year Ended December 31, 2009*

	General	Bond Retirement	Various Improvement	Other Governmental Funds	Total Governmental Funds
<b>Revenues</b>					
Property Taxes	\$7,065,929	\$1,438,256	\$0	\$1,144,643	\$9,648,828
Municipal Income Taxes	6,972,302	628,387	0	3,312,439	10,913,128
Special Assessments	0	115,948	0	0	115,948
Charges for Services	2,441,207	0	0	475,191	2,916,398
Fees, Licenses and Permits	273,672	0	0	313	273,985
Fines and Forfeitures	432,036	0	0	510,366	942,402
Intergovernmental	4,287,155	402,110	0	1,602,606	6,291,871
Interest	4,356	0	0	0	4,356
Rentals	31,917	0	0	0	31,917
Franchise Fees	256,283	0	0	0	256,283
Payments in Lieu of Taxes	0	0	0	134,859	134,859
Other	405,802	0	0	99,102	504,904
<i>Total Revenues</i>	<u>22,170,659</u>	<u>2,584,701</u>	<u>0</u>	<u>7,279,519</u>	<u>32,034,879</u>
<b>Expenditures</b>					
Current:					
General Government	10,174,392	13,484	0	518,850	10,706,726
Security of Persons and Property	10,658,994	0	0	1,617,164	12,276,158
Public Health Services	63,992	0	0	377,169	441,161
Transportation	1,149	0	0	2,652,315	2,653,464
Community Development	164,440	0	0	0	164,440
Basic Utility Services	1,776,877	0	0	633,560	2,410,437
Leisure Time Activities	0	0	0	1,619,204	1,619,204
Capital Outlay	0	0	99,152	1,664,912	1,764,064
Debt Service:					
Principal Retirement	0	2,082,000	4,356,000	5,573,320	12,011,320
Interest and Fiscal Charges	250,431	1,105,541	67,641	148,961	1,572,574
<i>Total Expenditures</i>	<u>23,090,275</u>	<u>3,201,025</u>	<u>4,522,793</u>	<u>14,805,455</u>	<u>45,619,548</u>
<i>Excess of Revenues Over (Under) Expenditures</i>	<u>(919,616)</u>	<u>(616,324)</u>	<u>(4,522,793)</u>	<u>(7,525,936)</u>	<u>(13,584,669)</u>
<b>Other Financing Sources (Uses)</b>					
General Obligation Notes Issued	0	0	4,356,000	5,560,000	9,916,000
Transfers In	0	889,413	67,641	3,740,082	4,697,136
Transfers Out	(3,617,896)	(189,827)	0	(889,413)	(4,697,136)
<i>Total Other Financing Sources (Uses)</i>	<u>(3,617,896)</u>	<u>699,586</u>	<u>4,423,641</u>	<u>8,410,669</u>	<u>9,916,000</u>
<i>Net Change in Fund Balances</i>	<u>(4,537,512)</u>	<u>83,262</u>	<u>(99,152)</u>	<u>884,733</u>	<u>(3,668,669)</u>
<i>Fund Balances (Deficit)</i>					
<i>Beginning of Year</i>	<u>(1,477,864)</u>	<u>125,113</u>	<u>99,335</u>	<u>(1,457,970)</u>	<u>(2,711,386)</u>
<i>Fund Balances (Deficit) End of Year</i>	<u>(\$6,015,376)</u>	<u>\$208,375</u>	<u>\$183</u>	<u>(\$573,237)</u>	<u>(\$6,380,055)</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, 2009*

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**Net Change in Fund Balances - Total Governmental Funds** (\$3,668,669)

*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	278,152	
Depreciation	(2,266,985)	
Total		(1,988,833)

Governmental funds only report the disposal of capital assets to the extent proceeds are received from the sale. In the statement of activities, a gain or loss is reported for each disposal. (304)

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

Property Taxes	1,005,923	
Municipal Income Taxes	194,041	
Intergovernmental	(72,861)	
Charges for Services	61,874	
Payments in Lieu of Taxes	(10,053)	
Special Assessments	(115,948)	
Total		1,062,976

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. 12,011,320

In the statement of activities, interest is accrued on outstanding bonds, bond issuance costs, note discount 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	28,235	
Amortization of Bond Issuance Costs	(21,051)	
Amortization of Loss on Refunding	(4,392)	
Amortization of Gain on Refunding	252	
Amortization of Bond Premium	8,568	
Total		11,612

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	517,958	
Claims	(63,194)	
Total		454,764

Other financing sources, such as general obligation notes issued, in the governmental funds increase long-term liabilities in the statement of net assets. (9,916,000)

*Change in Net Assets of Governmental Activities* (\$2,033,134)

See accompanying notes to the basic financial statements

**City of Garfield Heights, Ohio**  
*Statement of Revenues, Expenditures and Changes*  
*In Fund Balance - Budget (Non-GAAP Basis) and Actual*  
*General Fund*  
*For the Year Ended December 31, 2009*

	<u>Budgeted Amounts</u>			Variance with Final Budget Positive (Negative)
	<u>Original</u>	<u>Final</u>	<u>Actual</u>	
<b>Revenues</b>				
Property Taxes	\$6,929,370	\$6,929,370	\$7,065,929	\$136,559
Municipal Income Taxes	8,188,760	8,188,760	7,069,115	(1,119,645)
Charges for Services	2,702,718	2,702,718	2,388,271	(314,447)
Fees, Licenses and Permits	296,728	296,728	271,566	(25,162)
Fines and Forfeitures	441,786	441,786	401,872	(39,914)
Intergovernmental	3,894,589	3,894,589	4,116,715	222,126
Interest	19,000	19,000	4,356	(14,644)
Rentals	28,000	28,000	31,917	3,917
Franchise Fees	248,800	248,800	256,283	7,483
Other	305,910	305,910	357,942	52,032
<i>Total Revenues</i>	<u>23,055,661</u>	<u>23,055,661</u>	<u>21,963,966</u>	<u>(1,091,695)</u>
<b>Expenditures</b>				
Current:				
General Government	8,729,280	8,729,280	9,213,676	(484,396)
Security of Persons and Property	10,266,299	10,266,299	10,713,117	(446,818)
Public Health Services	182,262	182,262	197,012	(14,750)
Community Development	174,550	174,550	169,430	5,120
Basic Utility Services	1,638,392	1,638,392	1,513,122	125,270
Debt Service:				
Interest and Fiscal Charges	170,200	170,200	221,764	(51,564)
<i>Total Expenditures</i>	<u>21,160,983</u>	<u>21,160,983</u>	<u>22,028,121</u>	<u>(867,138)</u>
<i>Excess of Revenues Over (Under) Expenditures</i>	<u>1,894,678</u>	<u>1,894,678</u>	<u>(64,155)</u>	<u>(1,958,833)</u>
<b>Other Financing Sources (Uses)</b>				
Local Government Notes Issued	3,657,631	3,657,631	3,499,884	(157,747)
Transfers Out	(3,667,285)	(3,667,285)	(3,617,896)	49,389
<i>Total Other Financing Sources (Uses)</i>	<u>(9,654)</u>	<u>(9,654)</u>	<u>(118,012)</u>	<u>(108,358)</u>
<i>Net Change in Fund Balance</i>	1,885,024	1,885,024	(182,167)	(2,067,191)
<i>Fund Deficit Beginning of Year</i>	(1,942,506)	(1,942,506)	(1,942,506)	0
Prior Year Encumbrances Appropriated	355,486	355,486	355,486	0
<i>Fund Balance (Deficit) End of Year</i>	<u>\$298,004</u>	<u>\$298,004</u>	<u>(\$1,769,187)</u>	<u>(\$2,067,191)</u>

See accompanying notes to the basic financial statements



**City of Garfield Heights, Ohio**  
*Statement of Fiduciary Assets and Liabilities*  
*Agency Funds*  
*December 31, 2009*

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	<u>Agency</u>
<b>Assets</b>	
Cash and Cash Equivalents in Segregated Accounts	<u>\$898,542</u>
<b>Liabilities</b>	
Intergovernmental Payable	\$615,468
Due to Others	<u>283,074</u>
<i>Total Liabilities</i>	<u>\$898,542</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, 2009*

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**Note 1 - Description of the City and Reporting Entity**

The City of Garfield Heights (the City) 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 a seven member council elected from wards. 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).

On October 14, 2008, the Auditor of State's office declared the City of Garfield Heights to be in a state of fiscal emergency in accordance with Section 118.03, Ohio Revised Code. The declaration resulted in the establishment of a Financial Planning and Supervision Commission. The Commission is comprised of the Mayor of the City, Council President, three financial consultants from various corporations and/or organizations within the City and two representatives from the State of Ohio. The City has 120 days after the first meeting of the Commission to approve a financial recovery plan. Once the plan has been adopted, the City's discretion is limited in that all financial activity of the City must be in accordance with the plan. See Note 18 for more information on the City's fiscal emergency status.

***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, 2009*

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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.

***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 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.

***Fund Accounting***

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

***Governmental Funds***

Governmental funds are those through which most governmental functions typically are financed. Governmental fund reporting focuses on the sources, uses and balances of current financial resources. Expendable assets are assigned to the various governmental funds according to the purposes for which they

**City of Garfield Heights, Ohio**  
*Notes to the Basic Financial Statements*  
*For the Year Ended December 31, 2009*

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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 project fund receives the proceeds of long-term note issues and transfers from the bond retirement fund for use in various improvement projects around the City and payment of note principal and interest.

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 payments in lieu of taxes collected on the Transportation-Antenucci Boulevard tax increment financing, which are due to the Garfield Heights City School District and the Cuyahoga County Port Authority.

***Measurement Focus***

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

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

**City of Garfield Heights, Ohio**  
*Notes to the Basic Financial Statements*  
*For the Year Ended December 31, 2009*

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***Basis of Accounting***

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

***Revenues – Exchange and Non-exchange Transactions***

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

Nonexchange transactions, in which the City receives value without directly giving equal value in return, include income taxes, property taxes, grants, entitlements and donations. On an accrual basis, revenue from income taxes is recognized in the year in which the income is earned. Revenue from property taxes is recognized in the year for which the taxes are levied (See Note 8). Revenue from grants, entitlements and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the year when use is first permitted, matching requirements, in which the City must provide local resources to be used for a specified purpose, and expenditure requirements, in which the resources are provided to the City on a reimbursement basis. On a modified accrual basis, revenue from nonexchange transactions must also be available before it can be recognized.

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

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

Property taxes for which there is an enforceable legal claim as of December 31, 2009, but which were levied to finance year 2010 operations, have been recorded as deferred revenue. Grants and entitlements received before the eligibility requirements are met are also recorded as deferred revenue.

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

***Expenses/Expenditures***

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

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

**City of Garfield Heights, Ohio**  
*Notes to the Basic Financial Statements*  
*For the Year Ended December 31, 2009*

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***Budgetary Process***

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

***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. The City had no investments during the year or at year end.

Due to the poor financial condition of the City, several funds made advances to the general fund to eliminate the fund negative cash balance. The general fund has an interfund payable for the amount of the advance received and the special revenue and capital projects funds have an interfund receivable for the same amount.

Investment procedures are restricted by the provisions of the Ohio Revised Code. Interest revenue credited to the general fund during 2009 amounted to \$4,356, 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."

The City has segregated bank accounts for monies held separate from the City's central bank account. These depository accounts are presented as "Cash and Cash Equivalents in Segregated Accounts" and represent deposits.

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.

***Inventory***

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

**City of Garfield Heights, Ohio**  
*Notes to the Basic Financial Statements*  
*For the Year Ended December 31, 2009*

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***Prepaid Items***

Payments made to vendors for services that will benefit periods beyond December 31, 2009 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.

***Capital Assets***

General capital assets are those assets not specifically related to activities reported in the proprietary funds. 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:

<u>Description</u>	<u>Estimated Lives</u>
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

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

***Interfund Balances***

On fund financial statements, outstanding interfund loans and unpaid amounts for interfund services are reported as "interfund receivables/payables." Interfund balance amounts are eliminated in the statement of net assets.

***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.

**City of Garfield Heights, Ohio**  
*Notes to the Basic Financial Statements*  
*For the Year Ended December 31, 2009*

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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.

The entire compensated absences liability is reported on the government-wide financial statements.

***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.

***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.

***Net Assets***

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowing used for the acquisition, construction or improvement of those assets. Net assets are reported as restricted when there are limitations imposed on their use either through constitutional provisions or enabling legislation or through external restrictions imposed by creditors, grantors or laws or regulations of other governments. 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.

***Internal Activity***

Transfers between governmental activities are eliminated on the government wide financial statements. Internal allocations of overhead expenses from one function to another or within the same function are eliminated on the Statement of Activities. Interfund payments for services provided and used are not eliminated.

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



**City of Garfield Heights, Ohio**  
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financing sources/uses in governmental funds. Repayments from funds responsible for particular expenditures/expenses to the funds that initially paid for them are not presented on the financial statements.

***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 straight line method. Within the governmental fund statements, bond issuance costs are expended when incurred.

As permitted by State statute, the City paid bond issuance costs from the bond proceeds and therefore does not consider that portion of the debt to be capital-related debt. That portion of the debt was offset against the unamortized bond issuance costs which were included in the determination of unrestricted net assets. Reporting both within the same element of net assets prevents one classification from being overstated while another is understated by the same amount.

***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.

***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.

***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.

***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**

For fiscal year 2009, the City has implemented Governmental Accounting Standard Board (GASB) Statement No. 52, "Land and Other Real Estate Held as Investments by Endowments", Statement No. 53, "Accounting and Financial Reporting for Derivative Instruments", Statement No. 55, "The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments," Statement No. 56, "Codification of Accounting and Financial Reporting Guidance Contained in the AICPA Statements on Auditing Standards", Statement No. 57, "OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans", and Statement No. 58, "Accounting and Financial Reporting for Chapter 9 Bankruptcies".

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*Notes to the Basic Financial Statements*  
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GASB Statement No. 52 establishes consistent standards for the reporting of land and other real estate held as investments by essentially similar entities. It requires endowments to report their land and other real estate investments at fair value. Governments are also required to report the changes in fair value as investment income and to disclose the methods and significant assumptions employed to determine fair value. The implementation of this statement did not result in any change in the City's financial statements.

GASB Statement No. 53 addresses the recognition, measurement, and disclosure of information regarding derivative instruments entered into by state and local governments. It requires governments to measure derivative instruments, with the exception of synthetic guaranteed investment contracts that are fully benefit-responsive, at fair value in their economic resources measurement focus financial statements. The implementation of this statement did not result in any change in the City's financial statements.

GASB Statement No. 55 incorporates the hierarchy of generally accepted accounting principles (GAAP) for state and local governments into the GASB authoritative literature. The GAAP hierarchy consists of the sources of accounting principles used in the preparation of financial statements of state and local governmental entities that are presented in conformity with GAAP, and the framework for selecting those principles. The implementation of this statement did not result in any change in the City's financial statements.

GASB Statement No. 56 incorporates accounting and financial reporting guidance previously only contained in the American Institute of Certified Public Accountants' and auditing literature into the GASB's accounting and financial reporting literature for state and local governments. The statement's guidance addresses related party transactions, going concern considerations, and subsequent events from the AICPA literature. The implementation of this statement did not result in any change in the City's financial statements.

GASB Statement No. 57 addresses issues related to the use of the alternative measurement method and the frequency and timing of measurements by employers that participate in agent multiple-employer other postemployment benefit (OPEB) plans (that is, agent employers). The requirements in this Statement will allow more agent employers to use the alternative measurement method to produce actuarially based information for purposes of financial reporting and clarify that OPEB measures reported by agent multiple-employer OPEB plans and their participating employers should be determined at the same minimum frequency and as of a common date to improve the consistency of reporting with regard to funded status and funding progress information. The implementation of this statement did not result in any change in the City's financial statements.

GASB Statement No. 58 provides accounting and financial reporting guidance for governments that have petitioned for protection from creditors by filing for bankruptcy under Chapter 9 of the United States Bankruptcy Code. The requirements in this Statement will provide more consistent recognition, measurement, display, and disclosure guidance for governments that file for Chapter 9 bankruptcy. The implementation of this statement did not result in any change in the City's financial statements.

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

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	(\$4,537,512)
Net Adjustment for Revenue Accruals	(293,499)
Beginning Unrecorded Cash	550,927
Ending Unrecorded Cash	(464,121)
Note Proceeds	3,499,884
Net Adjustment for Expenditure Accruals	1,280,902
Encumbrances	<u>(218,748)</u>
Budget Basis	<u><u>(\$182,167)</u></u>

**Note 5 - Accountability and Compliance**

***Accountability***

The following funds had deficit fund balances as of December 31, 2009:

<b><i>General Fund</i></b>	(\$6,015,376)
<b><i>Special Revenue Funds</i></b>	
Police Pension	433,668
Fire Pension	402,826
Recreation	231,693
Street Construction, Maintenance and Repair	140,270
<b><i>Capital Projects Fund</i></b>	
Permanent Improvement	397,258

**City of Garfield Heights, Ohio**  
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The general fund concluded 2009 with a deficit fund balance of \$6,015,376. The City has experienced a financial shortfall which has resulted in deficit spending in the general fund. To alleviate the financial shortfall, the City has developed a strategy to stabilize its cash shortfall. See Note 18 for further information.

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 transfers when cash is required, not when accruals occur.

**Compliance**

The City had negative cash fund balances in the general fund in the amount of \$1,418,983. This indicates that revenue from other sources was used to pay obligations of these funds contrary to Ohio Revised Code Section 5705.10(H).

Contrary to Ohio Revised Code Section 5705.41(B) the following accounts in the general fund had expenditures plus encumbrances in excess of appropriations:

Fund/Function/Object	Appropriations	Expenditures Plus Encumbrances	Excess
General			
General Government			
Safety Administration			
Hospitalization and Life Insurance	\$15,400	\$22,734	(\$7,334)
Building Standards and Maintenance			
Pension	90,787	155,156	(64,369)
Hospitalization and Life Insurance	79,684	101,951	(22,267)
Training and Education	1,000	1,269	(269)
Dues and Subscriptions	2,293	2,706	(413)
Administration Support			
Pension	62,500	153,292	(90,792)
Hospitalization and Life Insurance	27,500	34,656	(7,156)
Executive Mayor			
Salaries and Wages	221,000	332,634	(111,634)
Pension	56,000	107,502	(51,502)
Hospitalization and Life Insurance	20,250	22,956	(2,706)
Legislative			
Operating Supplies	605	666	(61)
Finance			
Salaries and Wages	355,000	495,041	(140,041)
Pension	90,000	207,894	(117,894)

**City of Garfield Heights, Ohio**  
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Fund/Function/Object	Appropriations	Expenditures Plus Encumbrances	Excess
General			
General Government			
Legal Administration			
Salaries and Wages	\$420,000	\$535,417	(\$115,417)
Pension	96,000	208,866	(112,866)
Hospitalization and Life Insurance	51,000	57,307	(6,307)
Court			
Office Supplies	\$12,139	\$15,371	(\$3,232)
Lands and Buildings			
Pension	94,500	127,554	(33,054)
Hospitalization and Life Insurance	90,500	105,234	(14,734)
Uniform/Clothing	4,000	4,799	(799)
Bonds and Insurance	30,607	39,085	(8,478)
Miscellaneous			
Unemployment Compensation	7,500	9,272	(1,772)
Bank Service Charge	6,000	13,133	(7,133)
Employee Bonds	625	1,232	(607)
Insurance Claims	9,000	17,367	(8,367)
Refunds and Reimbursements	2,000	8,568	(6,568)
Security of Persons and Property			
Police Department			
Hospitalization and Life Insurance	548,699	686,098	(137,399)
Operating Supplies	30,388	38,399	(8,011)
Police Communication			
Salaries and Wages	528,850	584,041	(55,191)
Hospitalization and Life Insurance	97,723	124,989	(27,266)
Correctional Institution			
Hospitalization and Life Insurance	53,418	69,979	(16,561)
Special Services	17,200	37,365	(20,165)
Operating Supplies	35,000	41,399	(6,399)
Fire Prevention			
Hospitalization and Life Insurance	415,609	532,259	(116,650)
Public Health Services			
Animal Control			
Salaries and Wages	44,500	53,087	(8,587)
Pension	6,452	7,207	(755)
Hospitalization and Life Insurance	8,782	11,250	(2,468)
Community Development			
Economic Development			
Hospitalization and Life Insurance	10,100	11,472	(1,372)
Special Services	2,500	3,092	(592)
Basic Utility Services			
Sewer Operation			
Hospitalization and Life Insurance	10,850	16,361	(5,511)
Operating Supplies	3,425	5,180	(1,755)

**City of Garfield Heights, Ohio**  
*Notes to the Basic Financial Statements*  
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Although these budgetary violations and cash deficits were not corrected by fiscal year end, the above citations are a result of management failing to submit its approved appropriation realignments to the County Fiscal Officer. In future periods, management will ensure that appropriations will be closely monitored to prevent future violations.

**Note 6 - Deposits and Investments**

The City is a charter City and has adopted an investment policy through City Ordinance. The City has elected to follow the provisions of State statute. State statutes classify monies held by the City into three categories.

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

Inactive deposits are public deposits that 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 bills, bonds, notes or any other obligation or security issued by the United States Treasury, or any other obligation guaranteed as to principal and interest by the United States;
2. Bonds, notes, debentures, or 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;
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);
7. The State Treasurer's investment pool (STAR Ohio); and
8. Commercial paper and bankers acceptances if training requirements have been met.

**City of Garfield Heights, Ohio**  
*Notes to the Basic Financial Statements*  
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The City may also invest any monies not required to be used for a specific period of six months or more in the following:

1. Bonds of the State of Ohio:
2. Bonds of any municipal corporation, village, county, township, or other political subdivision of this State, as to which there is no default of principal, interest, or coupons; and
3. Obligation of the City.

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, \$735,607 of the City's bank balance of \$1,485,607 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**

### ***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 require compliance with terms and conditions specified in the grant agreements and are 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, 2009.

### ***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, 2009 consisted primarily of municipal income taxes, property taxes, accounts, payments in lieu of taxes, intergovernmental, interfund receivables and special assessments.

**City of Garfield Heights, Ohio**  
*Notes to the Basic Financial Statements*  
*For the Year Ended December 31, 2009*

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No allowances for doubtful accounts have been recorded as uncollectible amounts are expected to be insignificant. All receivables except property taxes, payments in lieu of taxes and special assessments are expected to be collected within one year. Property taxes, although ultimately collectible, include some portion of delinquencies that will not be collected within one year.

Special assessments expected to be collected in more than one year amount to \$735,607 in the bond retirement fund.

***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 2009 for real and public utility property taxes represents collections of the 2008 taxes. Property tax payments received during 2009 for tangible personal property (other than public utility property) is for 2009 taxes.

2009 real property taxes are levied after October 1, 2009 on the assessed value as of January 1, 2009, the lien date. Assessed values are established by State law at 35 percent of appraised market value. 2009 real property taxes are collected in and intended to finance 2010.

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

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. 2009 public utility property taxes became a lien December 31, 2008, are levied after October 1, 2009, and are collected in 2010 with real property taxes.

Tangible personal property tax revenue received during 2009 (other than public utility property tax) represents the collection of 2009 taxes levied against local and inter-exchange telephone companies. Tangible personal property tax on business inventory, manufacturing machinery and equipment, and furniture and fixtures is no longer levied and collected. Tangible personal property taxes received from telephone companies in 2009 were levied after October 1, 2008, on the value as of December 31, 2008. Amounts paid by multi-county taxpayers are due September 20. Single county taxpayers may pay annually or semiannually. If paid annually, payment is due April 30; if paid semiannually, the first payment is due April 30, with the remainder payable by September 20.

The full tax rate for all City operations for the year ended December 31, 2009 was \$28.70 per \$1,000 of assessed value. The assessed values of real and tangible personal property upon which 2009 property tax receipts were based are as follows:

Real Estate	
Residential/Agricultural	\$351,468,420
Other Real Estate	104,617,140
Tangible Personal Property	
Public Utility	8,993,020
Total	<u>\$465,078,580</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, 2009 and for which there is an enforceable legal claim. In the governmental funds, the entire receivable has been offset by deferred revenue



**City of Garfield Heights, Ohio**  
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since the current taxes were not levied to finance 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.

***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.

***Intergovernmental Receivables***

A summary of the principal items of intergovernmental receivables follows:

	Amount
Local Government	\$783,714
Homestead and Rollback	779,550
Gas Tax	417,304
Cuyahoga County	249,560
Various Cities	171,613
Grants	87,421
Permissive Tax	85,912
Motor Vehicle License	79,028
Miscellaneous	8,257
Inheritance Tax	1,350
<i>Total Intergovernmental Receivables</i>	\$2,663,709

***Payments in Lieu of Taxes***

According to State law, the City has established a tax incremental financing district within the City under which the City has granted property tax exemptions and agreed to construct certain infrastructure improvements. The property owner has agreed to make payments to the City to help pay the costs of the infrastructure improvements. The amount of those payments generally reflects all or a portion of the property taxes which the property owners would have paid if the property had not been declared exempt. The property owner's contractual promise to make these payments in lieu of taxes generally continues until the costs of the improvement have been paid or the agreement expires, whichever occurs first. Future development by these owners or others may result in subsequent agreements to make payments in lieu of taxes and may therefore spread the costs of the improvements to a larger number of property owners. A portion of the payments in lieu of taxes the City receives is due to the Garfield Heights City School District and the Port Authority. The receivable for this portion has been reported in the City's agency fund.

**City of Garfield Heights, Ohio**  
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**Note 9 - Capital Assets**

Capital asset activity for the year ended December 31, 2009, was as follows:

	Balance 12/31/08	Additions	Deductions	Balance 12/31/09
<b>Governmental Activities</b>				
<i>Capital Assets, Not Being Depreciated</i>				
Land	\$1,538,942	\$34,149	\$0	\$1,573,091
Construction in Progress	626,932	132,265	0	759,197
<i>Total Capital Assets, Not Being Depreciated</i>	<u>2,165,874</u>	<u>166,414</u>	<u>0</u>	<u>2,332,288</u>
<i>Capital Assets, Being Depreciated</i>				
Buildings	15,820,113	0	0	15,820,113
Improvements Other than Buildings	4,456,578	0	0	4,456,578
Vehicles	5,574,713	89,563	0	5,664,276
Machinery and Equipment	4,809,100	22,175	(1,731)	4,829,544
Furniture and Fixtures	681,817	0	0	681,817
Infrastructure				
Roads	24,906,863	0	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>	<u>62,150,951</u>	<u>111,738</u>	<u>(1,731)</u>	<u>62,260,958</u>
<i>Less Accumulated Depreciation</i>				
Buildings	(5,293,236)	(342,615)	0	(5,635,851)
Improvements Other than Buildings	(2,049,498)	(133,065)	0	(2,182,563)
Vehicles	(2,652,105)	(406,863)	0	(3,058,968)
Machinery and Equipment	(3,445,995)	(247,166)	1,427	(3,691,734)
Furniture and Fixtures	(511,826)	(22,966)	0	(534,792)
Infrastructure				
Roads	(12,170,103)	(996,275)	0	(13,166,378)
Sanitary Sewers	(923,372)	(71,573)	0	(994,945)
Storm Sewers	(400,278)	(33,229)	0	(433,507)
Water Supply Lines	(147,950)	(13,233)	0	(161,183)
<i>Total Accumulated Depreciation</i>	<u>(27,594,363)</u>	<u>(2,266,985) *</u>	<u>1,427</u>	<u>(29,859,921)</u>
<i>Total Capital Assets being Depreciated, Net</i>	<u>34,556,588</u>	<u>(2,155,247)</u>	<u>(304)</u>	<u>32,401,037</u>
<i>Capital Assets, Net</i>	<u><u>\$36,722,462</u></u>	<u><u>(\$1,988,833)</u></u>	<u><u>(\$304)</u></u>	<u><u>\$34,733,325</u></u>

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

General Government	\$406,679
Security of Persons and Property	447,704
Public Health Services	37,902
Transportation	1,113,223
Community Development	50
Basic Utility Services	140,101
Leisure Time Activities	121,326
Total Depreciation Expense	<u><u>\$2,266,985</u></u>

**City of Garfield Heights, Ohio**  
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**Note 10 – Other Employee Benefits**

***Compensated Absences***

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

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

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

***Early Retirement Incentive***

Each City employee, who was eligible to retire under any Ohio Public Employees Retirement System (OPERS) guidelines on or after June 30, 2009 and on or before October 1, 2010, was eligible to participate in an Early Retirement Incentive Plan (ERI), which added an additional 3 years of service credit for each participating employee. The City opted for a three year payment plan for all costs associated with the program for each employee who chose to participate. The program was in effect from July 1, 2009 through September 30, 2010, and 33 employees took advantage of the ERI program over the 15 month enrollment period

**Note 11 – Interfund Transfers and Balances**

***Interfund Transfers***

Transfer To	Transfer From			Totals
	General	Bond Retirement	Other Governmental Funds	
Bond Retirement	\$0	\$0	\$889,413	\$889,413
Various Improvement	0	67,641	0	67,641
Other Governmental Funds	3,617,896	122,186	0	3,740,082
<b>Totals</b>	<b>\$3,617,896</b>	<b>\$189,827</b>	<b>\$889,413</b>	<b>\$4,697,136</b>

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During 2009, the general fund transferred out \$3,617,896 to various other governmental funds. Of this total, \$739,168 was transferred to the police pension and \$657,576 to the fire pension special revenue funds. 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 general fund also transferred \$293,437 to the permanent improvement capital project fund to help fund equipment acquisitions. The remaining general fund transfers of \$137,301 to the recreation, \$686,016 to the street construction maintenance and repair and \$1,104,398 to the federal nutrition special revenue funds were all necessitated because those funds did not generate enough revenue to support the activities of the particular funds.

The bond retirement debt service fund transferred \$44,526 to the equipment acquisition, \$41,068 to the recreation center, \$36,592 to the street resurfacing, and \$67,641 to the various improvement capital projects funds to pay interest and fiscal charges on the note issues.

The bond retirement debt service fund received transfers in of \$25,000 from the street construction maintenance and repair and \$173,750 from the motor vehicle license tax special revenue funds, as well as \$450,000 from the storm and sanitary sewer and \$240,663 from the equipment acquisition capital projects funds to support payments on long-term debt.

***Interfund Balances***

Interfund Receivable	Interfund Payable General
<b>Special Revenue Funds</b>	
Street Lighting	\$45,556
Recreation	27,907
Street Construction, Maintenance and Repair	14,383
Indigent Drivers	321,411
Municipal Court Probation Services	3,356
Municipal Court Special Services	111,889
<b>Capital Project Funds</b>	
Permanent Improvement	74,583
Storm and Sewer	23,698
Municipal Court Capital Improvement	15,056
Equipment Acquisition Note	11,961
Street Improvement Note	4,713
TIF Capital Projects	431,805
<b>Total</b>	<b>\$1,086,318</b>

The interfund receivables and payables were the result of a deficit cash balance in the general fund, due to expenditures exceeding revenues in 2009. All interfund balances are expected to be repaid within one year.

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**Note 12 - 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 2009, the City contracted with Clarendon Insurance Company for various types of insurance as follows:

Type	Coverage	Per Occurrence
Property	\$28,974,574	
Inland Marine	1,250,802	
Comprehensive General Liability	3,000,000	\$1,000,000
Police Professional Liability	1,000,000	1,000,000
Employment Practices	1,000,000	1,000,000
Vehicle Liability	1,000,000	
Public Officials Liability	1,000,000	1,000,000
Umbrella	5,000,000	5,000,000

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 \$125,000 per employee and an aggregate of \$2,857,559 per year. The benefit is paid by the fund that pays the salary for the employee and is based on historical cost information.

A health benefit claims liability of \$368,952 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, 2009 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. Once the City receives notice of the 2009 claims paid by the Bureau of Workers' Compensation, the City will reimburse the State for claims paid on the City's behalf. The payable is reclassified from claims payable to intergovernmental payable. 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 2009. The minimum premium portion of intergovernmental payable is \$447,290 and the actual claim costs are \$282,610. The maintenance of these benefits is accounted for in the general fund. Claims of \$447,290 have been accrued as a liability at December 31, 2009 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 2008 and 2009 were:

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	Balance Beginning of Year	Current Year Claims	Claim Payments	Change in Worker's Compensation Estimate	Balance at End of Year
2008	\$1,087,276	\$2,207,444	\$2,407,574	(\$199,480)	\$687,666
2009	687,666	2,945,021	3,128,401	311,956	816,242

**Note 13 - Long-Term Obligations**

Changes in long-term obligations of the City during the year ended December 31, 2009 were as follows:

	Outstanding 12/31/2008	Additions	Reductions	Outstanding 12/31/2009	Amounts Due in One Year
<b>Governmental Activities</b>					
<b>General Obligation Bonds</b>					
1998 3.65%-4.6% \$2,645,000					
Justice Center Refunding	\$325,000	\$0	(\$325,000)	\$0	\$0
1998 3.65%-4.6% \$3,775,000					
Civic Center Refunding	2,225,000	0	(240,000)	1,985,000	245,000
1998 3.6%-4.6% \$4,460,000					
Various Improvements	2,700,000	0	(225,000)	2,475,000	230,000
2002 1.09%-5.55% \$7,300,000					
Various Improvements	6,410,000	0	(215,000)	6,195,000	220,000
2004 4.75% \$9,900,000					
Various Improvements	9,182,000	0	(387,000)	8,795,000	406,000
2006 4.00% \$1,885,000					
Various Purpose Improvement Refunding Bonds	1,470,000	0	(225,000)	1,245,000	235,000
Unamortized Amount on Refunding (Gain)	3,430	0	(252)	3,178	0
2006 4.00% \$2,307,466					
Various Purpose Refunding Bonds	1,904,753	0	(214,052)	1,690,701	221,308
Unamortized Amount on Refunding (Loss)	(60,873)	0	4,392	(56,481)	0
2006 4.00% \$2,790,000					
Street Improvement	2,660,000	0	(135,000)	2,525,000	145,000
Unamortized Premium	119,897	0	(8,568)	111,329	0
<b>Total General Obligation Bonds</b>	<b>26,939,207</b>	<b>0</b>	<b>(1,970,480)</b>	<b>24,968,727</b>	<b>1,702,308</b>
<b>Special Assessment Bonds</b>					
2006 4.00% \$325,000					
Various Purpose Improvement Refunding Bonds	255,000	0	(35,000)	220,000	40,000
2006 4.00% \$872,534					
Various Purpose Refunding Bonds	720,247	0	(80,948)	639,299	83,692
<b>Total Special Assessment Bonds</b>	<b>975,247</b>	<b>0</b>	<b>(115,948)</b>	<b>859,299</b>	<b>123,692</b>
<b>Bond Anticipation Notes Payable</b>					
2008 Equipment Acquisition; 3.15%	2,608,000	0	(2,608,000)	0	0
2008 Street Improvement; 3.97%	1,100,000	0	(1,100,000)	0	0
2008 Various Purpose; 3.68%	1,800,000	0	(1,800,000)	0	0
2009 Various Purpose; 2.80%	0	4,408,000	(4,408,000)	0	0
2009 Various Purpose; 3.17%	0	5,508,000	0	5,508,000	0
<b>Total Bond Anticipation Notes Payable</b>	<b>5,508,000</b>	<b>9,916,000</b>	<b>(9,916,000)</b>	<b>5,508,000</b>	<b>0</b>
<b>Other Long-Term Liabilities</b>					
Compensated Absences Payable	5,398,438	241,317	(759,275)	4,880,480	120,948
Claims Payable	384,096	306,175	(242,981)	447,290	201,225
Police and Fire Pension Liability	633,278	0	(13,320)	619,958	13,893
<b>Total Other Long-Term Liabilities</b>	<b>6,415,812</b>	<b>547,492</b>	<b>(1,015,576)</b>	<b>5,947,728</b>	<b>336,066</b>
<b>Total Governmental Activities</b>	<b>\$34,330,266</b>	<b>\$547,492</b>	<b>(\$3,102,004)</b>	<b>\$31,775,754</b>	<b>\$2,162,066</b>

**City of Garfield Heights, Ohio**  
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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 and claims will be paid from the general fund, recreation, street, construction, maintenance and repair and federal nutrition special revenue funds. The police and fire pension liability will be paid from taxes receipted in the police and fire pension special revenue funds. This includes an accrued liability incurred when the State of Ohio established the statewide pension system for police and firefighters.

The City issued \$4,408,000 of Various Improvement Notes on June 22, 2009. These notes matured on September 25, 2009. The City issued \$5,508,000 of Various Purpose notes on September 25, 2009 and these notes will mature on March 25, 2010. The notes are backed by the full faith of City of Garfield Heights.

The City's overall legal debt margin was \$18,622,925 at December 31, 2009. Principal and interest requirements to retire long-term obligations outstanding at December 31, 2009 are as follows:

	General Obligation Bonds		Special Assessment Bonds		Police and Fire Pension	
	Principal	Interest	Principal	Interest	Principal	Interest
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	1,858,820	995,533	134,180	27,589	15,111	24,984
2013	1,944,076	915,499	136,924	20,308	15,760	24,334
2014	2,027,588	826,548	147,412	14,675	16,437	23,657
2015-2019	7,772,345	2,858,034	190,655	11,250	93,401	107,070
2020-2024	6,375,000	1,189,310	0	0	115,259	85,213
2025-2029	1,455,000	148,000	0	0	142,231	58,241
2030-2034	0	0	0	0	175,515	24,955
2035	0	0	0	0	17,862	380
Totals	<u>\$24,910,701</u>	<u>\$9,154,176</u>	<u>\$859,299</u>	<u>\$146,822</u>	<u>\$619,958</u>	<u>\$400,643</u>

**Note 14 – Local Government Borrowing Note**

The City's note activity is as follows:

	Balance	Additions	Reductions	Balance
	12/31/08			12/31/09
2009 Local Government Borrowing	\$0	\$3,600,000	\$0	\$3,600,000
Unamortized Discount	0	(100,116)	3,337	(96,779)
Total	<u>\$0</u>	<u>\$3,499,884</u>	<u>\$3,337</u>	<u>\$3,503,221</u>

On October 29, 2009, the City issued \$3,600,000 in local government borrowing notes to eliminate deficit fund balances. These notes were issued at a discount of \$100,116. The note was issued at a 4 percent interest rate and matures on October 15, 2014.

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Principal and interest requirements to retire the local government note at December 31, 2010 are as follows:

	Principal	Interest
2010	\$719,884	\$129,787
2011	644,000	109,280
2012	694,000	83,020
2013	747,000	54,740
2014	795,116	24,300
Totals	\$3,600,000	\$401,127

**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 126 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 2009. 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 2009, 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.



**City of Garfield Heights, Ohio**  
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**Note 16 - Defined Benefit Pension Plans**

***Ohio Public Employees Retirement System***

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

OPERS provides retirement, disability and survivor benefits and annual cost-of-living adjustments to members of the Traditional Pension 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. Interested parties may obtain a copy by writing to OPERS, 277 East Town Street, Columbus, Ohio 43215-4642, or by calling 614-222-5601 or 800-222-7377.

Funding Policy – The Ohio Revised Code provides statutory authority for member and employer contributions. For the year ended December 31, 2009, members in state and local classifications contributed 10 percent of covered payroll while public safety and law enforcement members contributed 10.1 percent.

The City's contribution rate for 2009 was 14.0 percent. For the period January 1 through March 31, a portion of the City's contribution equal to 7.0 percent of covered payroll was allocated to fund the post-employment health care plan; for the period April 1 through December 31, 2009 this amount was decreased to 5.5 percent. Employer contribution rates are actuarially determined. State statute sets a maximum contribution rate for the City of 14.0 percent.

The City's required contributions for pension obligations to the Traditional Pension and Combined Plans for the years ended December 31, 2009, 2008, and 2007 were \$961,670, \$477,394, and \$572,251 respectively; 87.01 percent has been contributed for 2009 and 100 percent for 2008 and 2007. Contributions to the member-directed plan for 2009 were \$21,298 made by the City and \$15,213 made by the plan members.

***Ohio Police and Fire Pension Fund***

Plan Description - 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 OP&F, 140 East Town Street, Columbus, Ohio 43215-5164.

Funding Policy – Plan members are required to contribute 10 percent of their annual covered salary to fund pension obligations. The City's contribution was 19.5 percent for police officers and 24.0 percent for firefighters. Contribution rates are established by State statute. The City's pension contributions to OP&F for police and firefighters were \$534,473 and \$542,641 for the year ended December 31, 2009, \$545,235 and

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\$529,565 for the year ended December 31, 2008, and \$565,678 and \$544,733 for the year ended December 31, 2007. 47.99 percent for police and 45.33 percent for firefighters has been contributed for 2009. The full amount has been contributed for 2008 and 2007.

In addition to current contributions, the City pays installments on the accrued liability incurred when the State of Ohio established the statewide pension system for police and fire fighters in 1967. As of December 31, 2009, the unfunded liability of the City was \$619,958 payable in semi-annual payments through the year 2035. This is an accounting liability of the City which will not vary. The liability is reported as “long-term liabilities” in the governmental activities column on the statement of net assets.

### **Note 17 – Postemployment Benefits**

#### ***Ohio Public Employees Retirement System***

Plan Description – Ohio Public Employees Retirement System (OPERS) maintains a cost-sharing multiple-employer defined benefit post-employment health care plan for qualifying members of both the Traditional Pension and Combined Plans. Members of the Member-Directed plan do not qualify for ancillary benefits, including post-employment health care coverage. The plan includes a medical plan, a prescription drug program and Medicare Part B premium reimbursement.

In order to qualify for post-employment health care coverage, age-and-service retirees under the Traditional Pension and Combined Plans must have 10 or more years of qualifying Ohio service credit. Health care coverage for disability benefit recipients and qualified survivor benefit recipients is available. The Ohio Revised Code permits, but does not require, OPERS to provide health care benefits to its eligible members and beneficiaries. Authority to establish and amend benefits is provided in Chapter 145 of the Ohio Revised Code.

Disclosures for the health care plan are presented separately in the OPERS financial report which 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.

Funding Policy – The post-employment health care plan was established under, and is administered in accordance with, Internal Revenue Code 401(h). State Statute requires that public employers fund post-employment health care through contributions to OPERS. A portion of each employer’s contribution to OPERS is set aside for the funding of post-retirement health care.

Employer contribution rates are expressed as a percentage of the covered payroll of active employees. In 2009, state and local employers contributed 14.0 percent of covered payroll, and public safety and law enforcement employers contributed 17.63 percent. Each year, the OPERS Retirement Board determines the portion of the employer contribution rate that will be set aside for funding post-employment health care benefits. The amount of employer contributions which were allocated to fund post-employment health care was 7.0 percent from January 1 through March 31, 2009, and 5.5 percent from April 1 through December 31, 2009.

The OPERS Retirement Board is also authorized to establish rules for the payment of a portion of the health care benefits provided, by the retiree or their surviving beneficiaries. Payment amounts vary depending on the number of covered dependents and the coverage selected. Active members do not make contributions to the post-employment health care plan.

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The City's contributions allocated to fund post-employment health care benefits for the years ended December 31, 2009, 2008, and 2007 were \$695,361, \$477,394 and \$376,932 respectively; 87.01 percent has been contributed for 2009 and 100 percent for 2008 and 2007.

The Health Care Preservation Plan (HCPP) adopted by the OPERS Retirement Board on September 9, 2004, was effective January 1, 2007. Member and employer contribution rates increased on January 1 of each year from 2006 to 2008. Rates for law and public safety employers increased over a six year period beginning on January 1, 2006, with a final rate increase on January 1, 2011. These rate increases allowed additional funds to be allocated to the health care plan.

***Ohio Police and Fire Pension Fund***

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

OP&F provides access to post-retirement health care coverage for 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. The health care coverage provided by OP&F meets the definition of an Other Post-Employment Benefit (OPEB) as described in GASB Statement No. 45.

The Ohio Revised Code allows, but does not mandate, OP&F to provide OPEB benefits. Authority for the OP&F Board of Trustees to provide healthcare coverage to eligible participants and to establish and amend benefits is 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 OP&F, 140 East Town Street, Columbus, Ohio 43215-5164.

Funding Policy – The Ohio Revised Code provides for contribution requirements of the participating employers and of plan members to the OP&F defined benefit pension plan. Participating employers are required to contribute to the pension plan at rates expressed as percentages of the payroll of active pension plan members, currently 24.0 percent of covered payroll for fire employers. The Ohio Revised Code states that the employer contribution may not exceed 24.0 percent of covered payroll for fire employer units. Active members do not make contributions to the OPEB Plan.

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

The Board of Trustees is authorized to allocate a portion of the total employer contributions made into the pension plan to the Section 115 trust and the Section 401(h) account as the employer contribution for retiree health care benefits. For the year ended December 31, 2009, the employer contribution allocated to the health care plan was 6.75 percent of covered payroll. The amount of employer contributions allocated to the health care plan each year is subject to the Trustees' primary responsibility to ensure that pension benefits are adequately funded and is limited by the provisions of Sections 115 and 401(h).

**City of Garfield Heights, Ohio**  
*Notes to the Basic Financial Statements*  
*For the Year Ended December 31, 2009*

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

The City's contributions to OP&F which were allocated to fund post-employment health care benefits for police and firefighters were \$282,956 and \$212,338 for the year ended December 31, 2009, \$288,654 and \$207,221 for the year ended December 31, 2008, and \$299,477 and \$213,172 for the year ended December 31, 2007. 47.99 percent has been contributed for police and 45.33 percent has been contributed for firefighters for 2009. The full amount has been contributed for 2008 and 2007.

**Note 18 – Fiscal Emergency**

The Auditor of State's office placed the City in fiscal emergency on October 14, 2008 in accordance with Section 118.03, Ohio Revised Code. The declaration resulted in the establishment of a financial planning and supervision commission. The Commission is comprised of a representative of the Office of Budget and Management, a representative of the Treasurer of State, the City Mayor, the President of City Council, and three individuals appointed by the Governor who are residents of the City and meet certain criteria.

In accordance with Section 118.06 of the Ohio Revised Code, the City is required to submit to the Commission a financial recovery plan for the City which outlines the measures to be taken to eliminate the fiscal emergency conditions. The City adopted its initial financial recovery plan on April 23, 2009.

A city is placed into fiscal emergency when any one of six conditions is present. For the City of Garfield Heights, one of the six conditions was present at the date of the Auditor of State's determination. The condition present in the City was deficit fund balances. Under Section 118.03(A)(5) of the Revised Code, the aggregate sum of all deficit funds at the end of the preceding fiscal year, less any transferable balance in the general fund and in any special revenue fund that exceed one-sixth of the general fund budget and the receipts of the deficit funds is a fiscal emergency condition. As of December 31, 2007, the City had deficit fund balances in the following funds: general fund, permanent improvement fund, firemen's relief pension fund, water maintenance estimate and repair fund, federal nutrition fund, community development revenue sharing fund and the revolving city project fund. The Auditor of State's calculation determined the total unprovided portion of aggregate deficit funds was \$625,116 for the year ended December 31, 2007.

**Note 19 – Subsequent Events**

On April 15, 2010, the City extended the duration of the local government borrowing notes from six months to five years with Cuyahoga County. The interest rate on the notes will be 4 percent from April 15, 2010 to October 27, 2014. The notes mature on October 27, 2014.

On September 23, 2010, the City issued \$5,508,000 various purpose improvement notes to refinance previous notes. The interest rate on the notes is 3.28 percent and the notes will mature on November 23, 2010.

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# Dave Yost • 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 the City of Garfield Heights, Cuyahoga County, Ohio (the City) as of and for the years ended December 31, 2010, and December 31, 2009, which collectively comprise the City's basic financial statements and have issued our report thereon dated July 12, 2012, wherein we noted the City experienced certain financial difficulties during fiscal years 2010 and 2009. The Auditor of State has determined a fiscal emergency exists for fiscal years 2010 and 2009, and a financial planning and supervision commission has assumed certain management responsibilities for the duration of this emergency pursuant to Chapter 118 of the Ohio Rev. Code. The City's financial difficulties have resulted in a deficit fund balance in the General Fund of \$5,101,803 for fiscal year 2010 that raise substantial doubt about the City's ability to continue as a going concern. The City's financial difficulties have resulted in a deficit fund balance in the General Fund of \$6,015,376 and other funds of \$573, 237 for fiscal year 2009. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the Comptroller General of the United States' *Government Auditing Standards*.

### Internal Control Over Financial Reporting

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

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, when performing their assigned functions, to prevent, or detect and timely correct misstatements. A *material weakness* is a deficiency, or combination of internal control deficiencies resulting in more than a reasonable possibility that a material misstatement of the City's financial statements will not be prevented, or detected and timely corrected.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider material weaknesses, as defined above.

### 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 we must report under *Government Auditing Standards* which are described in the accompanying schedule of findings as item 2010-001 through 2010-005.

We also noted certain matters not requiring inclusion in this report that we reported to the City's management in a separate letter dated July 12, 2012.

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

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



**Dave Yost**  
Auditor of State

July 12, 2012



**CITY OF GARFIELD HEIGHTS  
CUYAHOGA COUNTY**

**SCHEDULE OF FINDINGS  
DECEMBER 31, 2010 AND 2009**

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

**FINDING NUMBER 2010-001**

**Noncompliance Finding**

**Expenditures Plus Encumbrances vs. Appropriations**

**Ohio Rev. Code Section 5705.41(B)** prohibits a subdivision or taxing unit from making expenditures unless it has 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 object level.

Several accounts within the City's General Fund had expenditures in excess of appropriations and expenditures plus encumbrances in excess of appropriations at the legal level of control at December 31, 2010.

<b>Fund/Function/Object</b>	<b>Appropriations Plus Prior Year Encumbrances</b>	<b>Expenditures Plus Encumbrances</b>	<b>Excess</b>
<b>General Fund</b>			
General Government			
<b>Lands and Buildings</b>			
Office Supplies	200	4,065	(3,865)
<b>General Fund</b>			
General Government			
<b>Miscellaneous</b>			
Unemployment Compensation	49,000	55,381	(6,381)
Cobra	1,250	1,424	(174)
Redflex Charges	265,000	318,306	(53,306)
Traffic Camera Charges	21,000	121,207	(100,207)

**CITY OF GARFIELD HEIGHTS  
CUYAHOGA COUNTY**

**SCHEDULE OF FINDINGS  
DECEMBER 31, 2010 AND 2009**

**FINDING NUMBER 2010-001 (Continued)**

Several accounts within the City's General Fund had expenditures in excess of appropriations and expenditures plus encumbrances in excess of appropriations at the legal level of control at December 31, 2009.

<b>Fund/Function/Object</b>	<b>Appropriations Plus Prior Year Encumbrances</b>	<b>Expenditures Plus Encumbrances</b>	<b>Excess</b>
<b>General Fund</b>			
Security of Persons and Property			
<b>Police Department</b>			
<b>General Law Enforcement</b>			
Hospitalization and Life Insurance	548,699	686,098	(137,399)
Operating Supplies	30,388	38,399	(8,011)
<b>General Fund</b>			
Security of Persons and Property			
<b>Fire Prevention</b>			
Hospitalization and Life Insurance	415,609	532,259	(116,650)
<b>General Fund</b>			
General Government			
<b>Safety Administration</b>			
Hospitalization and Life Insurance	15,400	22,734	(7,334)
<b>General Fund</b>			
Security of Persons and Property			
<b>Police Communication</b>			
Salaries and Wages	528,850	584,041	(55,191)
Hospitalization and Life Insurance	97,723	124,989	(27,266)
<b>General Fund</b>			
Public Health and Welfare			
<b>Animal Control</b>			
Salaries and Wages	44,500	53,087	(8,587)
Pension	6,452	7,207	(755)
Hospitalization and Life Insurance	8,782	11,250	(2,468)
<b>General Fund</b>			
Security of Persons and Property			
<b>Police Department</b>			
<b>Correctional Institution</b>			
Hospitalization and Life Insurance	53,418	69,979	(16,561)
Special Services	17,200	37,365	(20,165)
Operating Supplies	35,000	41,399	(6,399)

**CITY OF GARFIELD HEIGHTS  
CUYAHOGA COUNTY**

**SCHEDULE OF FINDINGS  
DECEMBER 31, 2010 AND 2009**

**FINDING NUMBER 2010-001 (Continued)**

<b>Fund/Function/Object</b>	<b>Appropriations Plus Prior Year Encumbrances</b>	<b>Expenditures Plus Encumbrances</b>	<b>Excess</b>
<b>General Fund</b>			
General Government			
<b>Building Standards and Maintenance</b>			
Pension	90,787	155,156	(64,369)
Hospitalization and Life Insurance	79,684	101,951	(22,267)
Training and Education	1,000	1,269	(269)
Dues & Subscriptions	2,293	2,706	(413)
<b>General Fund</b>			
Basic Utility Service			
<b>Sewer Operation</b>			
Hospitalization and Life Insurance	10,850	16,361	(5,511)
Operating Supplies	3,425	5,180	(1,755)
<b>General Fund</b>			
General Government			
<b>Administration Support</b>			
Pension	62,500	153,292	(90,792)
Hospitalization and Life Insurance	27,500	34,656	(7,156)
<b>General Fund</b>			
General Government			
<b>Executive Mayor</b>			
Salaries and Wages	221,000	332,634	(111,634)
Pension	56,000	107,502	(51,502)
Hospitalization and Life Insurance	20,250	22,956	(2,706)
<b>General Fund</b>			
General Government			
<b>Legislative</b>			
Operating Supplies	605	666	(61)
<b>General Fund</b>			
General Government			
<b>Finance</b>			
Salaries and Wages	355,000	495,041	(140,041)
Pension	90,000	207,894	(117,894)

**CITY OF GARFIELD HEIGHTS  
CUYAHOGA COUNTY**

**SCHEDULE OF FINDINGS  
DECEMBER 31, 2010 AND 2009**

**FINDING NUMBER 2010-001 (Continued)**

<b>Fund/Function/Object</b>	<b>Appropriations Plus Prior Year Encumbrances</b>	<b>Expenditures Plus Encumbrances</b>	<b>Excess</b>
<b>General Fund</b>			
General Government			
<b>Legal Administration</b>			
Salaries and Wages	420,000	535,417	(115,417)
Pension	96,000	208,866	(112,866)
Hospitalization and Life Insurance	51,000	57,307	(6,307)
<b>General Fund</b>			
General Government			
<b>Court</b>			
Office Supplies	12,139	15,371	(3,232)
<b>General Fund</b>			
General Government			
<b>Lands and Buildings</b>			
Pension	94,500	127,554	(33,054)
Hospitalization and Life Insurance	90,500	105,234	(14,734)
Uniform/Clothing	4,000	4,799	(799)
Bonds and Insurance	30,607	39,085	(8,478)
<b>General Fund</b>			
General Government			
<b>Miscellaneous</b>			
Unemployment Compensation	7,500	9,272	(1,772)
Bank Service Charge	6,000	13,133	(7,133)
Employee Bonds	625	1,232	(607)
Insurance Claims	9,000	17,367	(8,367)
Refunds and Reimbursements	2,000	8,568	(6,568)
<b>General Fund</b>			
Community Environment			
<b>Economic Development</b>			
Hospitalization and Life Insurance	10,100	11,472	(1,372)
Special Services	2,500	3,092	(592)

Failure to limit expenditures to appropriations could allow expenditures to exceed available resources, further resulting in negative cash fund balances.

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.

**CITY OF GARFIELD HEIGHTS  
CUYAHOGA COUNTY**

**SCHEDULE OF FINDINGS  
DECEMBER 31, 2010 AND 2009**

**FINDING NUMBER 2010-001 (Continued)**

**Official's Response:**

The City of Garfield Heights, Finance Department, agrees with this finding, for this audit period. We would however, like to make mention of the steps that have been instituted since the end of this audit period that will help to eliminate this finding in future audit periods. The first change was the retirement of the Finance Director who had served the City for 27 years. The prior Finance Director was basically adverse to the change to newer electronic equipment and software packages, therefore, the City through his tenure operated on a 30 years old, DOS based, non-user friendly, time share accounting platform.

At the time of this change in administration of the Finance Department, the City was basically at 150-180 days on accounts payable. The first task of the new finance department was to stabilize the cash flows of the city and to better handle its accounts receivable and accounts payable situation. This did not happen instantly, but over the course of the next 7 months the City was able to reduce its' accounts payable down to 60 days, and then within the first quarter of 2011 this was reduced further to 30 – 45 days which is where the City currently stands in regards to its' accounts payable.

While dealing with the cash flow problems identified above the finance department was also in the process of analyzing various newer governmental software platforms, the required hardware, and the conversion process necessary in order to replace the old system that was then in use. During the latter part of 2010 it was determined to migrate to the SSI (Software Solutions) governmental accounting platform, and to utilize RITA (Regional Income Tax Agency) for support and backup functions of this project. During the first half of 2011 the finance department then performed the hardware installation that would be required for the new software. In July 2011 the Budgetary and Accounts Payable modules became operational, and in October 2011 the payroll module was implemented.

Review of the December 31, 2011 financial statements generated from this new accounting platform will show that all encumbrances are now included in monthly and annual cash basis financial statements. Additionally, all encumbrances are included in the budgetary legislation enacted by City Council throughout the year. Also, during 2011 the legal level of control has been amended through this budgetary legislation to Fund, Department, Object; eliminating the Detail level for budgetary purposes thus enabling the Finance and Departmental Directors more ability to move expenditures within the Object level thus budgeted, as was strongly suggested by the State Auditor's Office.

**FINDING NUMBER 2010-002**

**Noncompliance Finding**

**Estimated Resources vs. Appropriations**

**Ohio Rev. Code Section 5705.39** prohibits a political subdivision from making a fund appropriation in excess of estimated resources available for expenditure from the fund. In addition, Ohio Rev. Code 5705.40 states 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 General Fund had appropriations in excess of estimated resources as reported on the Official Certificate of Estimated Resources at December 31, 2010:

**CITY OF GARFIELD HEIGHTS  
CUYAHOGA COUNTY**

**SCHEDULE OF FINDINGS  
DECEMBER 31, 2010 AND 2009**

**FINDING NUMBER 2010-002 (Continued)**

**Noncompliance Finding (Continued)**

**Estimated Resources vs. Appropriations (Continued)**

<b>Fund</b>	<b>Estimated Resources</b>	<b>Appropriations</b>	<b>Variance</b>
General Fund	\$21,870,186	\$23,366,907	(\$1,496,721)

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

**Official's Response:**

The City of Garfield Heights Finance Department agrees with this finding for this audit period. The City was placed in Fiscal Emergency by the State Auditor's Office in October 2008 for deficit fund balances in various funds. Since this designation, all deficit balances have been consolidated into the General Fund, the City's main operating fund. Since this designation, the City has implemented a Financial Recovery Plan, approved by the Financial Planning & Supervision Commission established under Chapter 118 of the Ohio Revised Code, in order to eliminate all deficit fund balances in all funds. Initially the implementation of this plan had indicated that the City would have alleviated the negative balance in the General Fund between 2012 and 2013, however, due to external forces this projection has increased to 2016 to 2017. The City is currently working with the Commission and the Financial Supervisor to review the forecast. Review of the 2011 cash financial statements will show that the City is currently operating within the revenue limitations of all funds for the current fiscal years, while at the same time reducing the negative balance that was accrued in the General Fund from past fiscal periods.

**FINDING NUMBER 2010-003**

**Noncompliance Finding**

**Negative Cash Fund Balance**

**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 fund balance indicates that money from one fund was used to cover the expenses of another fund.

The General Fund had deficit fund balances at December 31, 2010, and December 31, 2009, of \$1,659,885 and \$1,418,983, respectively.

We recommend the City review the activities of all 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.

**CITY OF GARFIELD HEIGHTS  
CUYAHOGA COUNTY**

**SCHEDULE OF FINDINGS  
DECEMBER 31, 2010 AND 2009**

**FINDING NUMBER 2010-003 (Continued)**

**Noncompliance Finding (Continued)**

**Negative Cash Fund Balance (Continued)**

**Official's Response:**

The City of Garfield Heights Finance Department agrees with this finding for this audit period. Additionally, we repeat the responses to Findings #2010-001 and #2010-002 above.

**FINDING NUMBER 2010-004**

**Noncompliance Finding**

**Recording of Encumbrances**

**Ohio Rev. Code Section 5705.41(D)(1)** states no subdivision shall "make any contract or give any order involving the expenditure of money unless there is attached thereto a certificate of the fiscal officer of the subdivision that the amount required to meet the obligation ... has been lawfully appropriated for such purpose and is in the treasury or in the process of collection to the credit of an appropriate fund free from any previous encumbrances."

Ohio Administrative Code 117-2-02(C)(2) - Purchase orders should be used to approve purchase commitments and to encumber funds against the applicable appropriation account(s).

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 of Garfield Heights Finance Department agrees with this finding for this audit period. As mentioned previously, the City had been utilizing an outdated, cumbersome financial accounting package. With the installation of the new accounting package during 2011, this finding has been eliminated. Currently, all expenditures are approved through the City's Purchase Order systems and all encumbrances are included in the monthly and annual cash basis financial statements.

**CITY OF GARFIELD HEIGHTS  
CUYAHOGA COUNTY**

**SCHEDULE OF FINDINGS  
DECEMBER 31, 2010 AND 2009**

**FINDING NUMBER 2010-005**

**Noncompliance Finding**

**Financial Recovery Plan**

**Ohio Rev. Code section 118.06(E)** states, if a municipal corporation fails to submit a financial plan as required by this section, or fails to substantially comply with an approved financial plan, upon certification of the commission, all state funding for that municipal corporation other than benefit assistance to individuals shall be escrowed until a feasible plan is submitted and approved or substantial compliance with the plan is achieved, as the case may be.

Although the City submitted a financial recovery plan (the Plan), which Council approved on March 23, 2009, the City did not substantially comply with all elements of the approved plan. We noted the following weaknesses:

1. According to the Plan, on or before December 31 of each year that the City remains in fiscal emergency, the City Council shall adopt a permanent budget appropriation for the upcoming year that begins January 1. Failure to do so is in violation of the financial plan and the City shall be subject to remedies and penalties as prescribed in Chapter 118 of the Ohio Revised Code. For the year ending December 31, 2010, City Council adopted the permanent appropriations ordinance on January 25, 2011, which is after the December 31 deadline as outlined in the Financial Recovery Plan.
2. The Plan requires the City's Finance Department to close the preceding month's books and reconcile to the banks by the 12th day of the following month. During several months in 2010 and 2009, the Finance Department closed the preceding month's books and reconciled to the banks after the 12th day of the following month.
3. At December 31, 2010, the following funds (other than the general fund) had expenditures plus encumbrances in excess of appropriations at the legal level of control (object level): Recreation Fund; Street Construction, Maintenance & Repair Fund; and Revolving Fund.
4. At December 31, 2009, the following funds (other than the general fund) had expenditures plus encumbrances in excess of appropriations at the legal level of control (object level): Average Pay Fund; Permanent Improvements Fund; Recreation Fund; Street Construction, Maintenance & Repair Fund; Storm and Sanitary Sewer Fund; Revolving Fund; Debt Amortization Fund; and Restricted Fund.

Failure to implement the elements of the Financial Recovery Plan may subject the City to remedies and penalties described in Chapter 118 of the Ohio Revised Code.

We recommend the City implement all the required elements of the Financial Recovery Plan.

**Official's Response:**

The City of Garfield Heights Finance Department agrees with this finding for this audit period. Although the Financial Recovery Plan stipulated December 31 as the date that the next years' budget was to be approved by City Council, the City did comply with the Financial Planning Commissions request that it be approved by the end of January 2010, instead of March 31<sup>st</sup>.



**CITY OF GARFIELD HEIGHTS  
CUYAHOGA COUNTY**

**SCHEDULE OF FINDINGS  
DECEMBER 31, 2010 AND 2009**

**FINDING NUMBER 2010-005 (Continued)**

**Noncompliance Finding (Continued)**

**Financial Recovery Plan (Continued)**

**Official's Response: (Continued)**

Additionally, during the first quarter of 2010 the whole City finance Department experienced massive employee turnover. The older employees who had been with the City for a number of years took advantage of an Early Retirement Program offered by the City, and thus all new employees were then hired during this time period. Due to this occurrence, the training required for the new employees needed to be handled first. Upon the completion of this task the City's next major hurdle was that of stabilizing the cash flow problems of the City, as mentioned previously. This process took most of the rest of 2010, so that by the end of the year the City's accounts payable timing was reduced down to 60 days, from roughly 150 to 180 days. The next major step for the Finance Department during this time period was that of the implementation of a new accounting, budgetary, and payroll accounting system. The budgetary and account payable modules were implemented in July 2011 and payroll in October 2011.

During this time the City Finance Department, provided and complied with all requests and suggestions from the Planning Commission. Due to these circumstances, the City adopted a temporary budget for the first quarter of 2011 in December 2010, and approved a final appropriation measure in February of 2011, with the Commissions' approval. For the 2012 budgetary cycle, the timing stipulated in the Financial Plan has been complied with in total. The City's forecast was updated by September 1<sup>st</sup>; Budget hearings with City Council and Departmental Directors were conducted during September 2011; a final amended Mayor's Estimate and forecast was presented to City Council upon the completion of this process; At the same time the Financial Supervisor and thus the Commission was presented the same information; finally City Council approved a full year appropriation measure for 2012 prior to the December 31<sup>st</sup> deadline stipulated in the Recovery Plan. This process will be continued until the City is removed from the Fiscal Emergency designation, at which time the administration and City Council will re-evaluate the budgetary options under the Ohio Revised Code.

**CITY OF GARFIELD HEIGHTS  
CUYAHOGA COUNTY**

**SCHEDULE OF PRIOR AUDIT FINDINGS  
DECEMBER 31, 2010 AND 2009**

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>
2008-001	Ohio Rev. Code Section 5705.41(B), expenditures plus encumbrances in excess of appropriations.	No	Not Corrected; reissued as 2010-001.
2008-002	Ohio Rev. Code Section 5705.39, appropriations in excess of estimated resources.	No	Not Corrected; reissued as 2010-002.
2008-003	Ohio Rev. Code Section 5705.10(H), negative cash fund balances.	No	Not Corrected; reissued as 2010-003.
2008-004	Ohio Rev. Code Section 5705.41(D)(1) and Ohio Administrative Code 117-2-02(C)(2), recording of encumbrances; management does not record encumbrances during the year.	No	Not Corrected; reissued as 2010-004.



# Dave Yost • 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  
AUGUST 21, 2012**