

# **City of Garfield Heights, Ohio**

**December 31, 2012 and 2011**





# Dave Yost • Auditor of State

City Council  
City of Garfield Heights  
5407 Turney Road  
Garfield Heights, Ohio 44125

We have reviewed the *Independent Auditor's Report* of the City of Garfield Heights, Cuyahoga County, prepared by Ciuni & Panichi, Inc., for the audit period January 1, 2011 through December 31, 2012. Based upon this review, we have accepted these reports in lieu of the audit required by Section 117.11, Revised Code. The Auditor of State did not audit the accompanying financial statements and, accordingly, we are unable to express, and do not express an opinion on them.

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

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

Dave Yost  
Auditor of State

August 29, 2013

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# City of Garfield Heights, Ohio

For The Years Ended December 31, 2012 and 2011

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## Independent Auditor's Report

To the City Council  
City of Garfield Heights, Ohio

### Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of City of Garfield Heights, Ohio (the "City"), as of and for the years ended December 31, 2012 and 2011, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

### *Management's Responsibility for the Financial Statements*

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

### *Auditor's Responsibility*

Our responsibility is to express opinions on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

To the City Council  
City of Garfield Heights, Ohio

### ***Opinions***

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the City, as of December 31, 2012 and 2011, and the respective changes in financial position thereof and the respective budgetary comparison for the General Fund for the years then ended in accordance with accounting principles generally accepted in the United States of America.

### ***Emphasis of Matter Regarding Going Concern***

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 2012, the City is experiencing certain financial difficulties. The Auditor of State has determined a fiscal emergency exists, and a Financial Planning and Supervision Commission have assumed certain management responsibilities for the duration of this emergency pursuant to Chapter 118 of the Ohio Revised Code. The City's financial difficulties have resulted in deficit fund balances in the General Fund of \$608,360 and other funds of \$627,885 that raise substantial doubt about the City's ability to continue as a going concern. Management's corrective action plan is described in Note 19 to the financial statements for fiscal year 2012. The financial statements do not include any adjustments that might result from the outcome of this uncertainty.

As described in Note 19 to the financial statements for fiscal year 2011, the City experienced financial difficulties at December 31, 2011. The difficulties have resulted in deficit fund balances in the General Fund of \$4,095,171, and other funds of \$764,504. Management's correction action plan is described in Note 19 to the financial statements for fiscal year 2011.

### ***Change in Accounting Principle***

As described in Note 3 to the December 31, 2012 basic financial statements, in 2012, the City adopted new accounting guidance, Governmental Accounting Standards Board (GASB) Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*, and GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*. Our opinion is not modified with respect to this matter.

As described in Note 3 to the December 31, 2011 basic financial statements, in 2011, the City adopted new accounting guidance, Governmental Accounting Standards Board (GASB) Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*. Our opinion is not modified with respect to this matter.

### ***Other Matters***

#### ***Required Supplementary Information***

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 4 through 12 and 51 through 59 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of

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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 audits of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

**Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated June 28, 2013, on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering City's internal control over financial reporting and compliance.

*Cini & Parichi, Inc.*

Cleveland, Ohio  
June 28, 2013

**City of Garfield Heights, Ohio**  
*Management's Discussion and Analysis*  
*For the Year Ended December 31, 2012*  
*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, 2012. 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 May 2009 the State Financial Oversight Commission approved the City's plan of action.
- In the summer of 2011, the State Legislature approved the State's biennial budget for fiscal years 2012 and 2013. The State of Ohio operates on a fiscal year which runs from July 1 through June 30. The State approved revenue cuts to local governments, as proposed by the Governor, have added an additional burden to many local governments. Given the situation, the City of Garfield Heights was in at the time of its passage, this new State Budget Bill added just another obstacle to be overcome. The State Auditor's Office, during the summer of 2011, projected that just the loss of the State shared Local Government Funds would amount to \$756,656 dollars in years 2011 and 2012, and projected the loss in the years 2013 through 2015 at over \$1.5 million in State shared funds.
- During 2012, the City continued to reduce the timing of accounts payable payments from 60 days at the beginning of the year to between 30 and 45 days by the end of the first quarter and has maintained that timing. This was due in large part to the savings that were realized through the implementation of the City's Financial Recovery Plan. In early 2013 the Finance Department implemented the process of paying completed Purchase Orders within 30 days and thus has processed vendor payable checks every Friday for the past five months.
- During 2011, the City's Finance Department purchased (through a private grant), configured, and implemented a new financial software system with all new personal computers and servers. Budgetary and accounts payable were converted in June 2011 to the new system and payroll was converted in September 2011. With the new equipment and software programs, the City now accounts for all encumbrances on a daily basis through the use of the included purchase order module. The implementation of this new financial hardware and software is projected to save the City an additional \$30,000 to \$40,000 annually.
- Based on the improved cash financial position of the City at the end of 2012, in late January 2013 the City Council approved Resolution 4-2013 which was a request to the State Auditor to be removed from the Fiscal Emergency designation, and requesting the City's Financial Planning and Supervision Commission to do the same if approved by the Commission as a whole. On February 4, 2013 the City's Financial Planning and Supervision Commission approved Resolution 2013-001 in which the Commission agreed with the City Council that the City should be removed from fiscal emergency. Based on these two resolutions the Mayor and Chairman of the Commission have both drafted formal letters to the State Auditor requesting that the City be removed from fiscal emergency. As of the date of this filing the State Auditor's Office is in the process of performing the required tests and check and balances required within ORC Chapter 118 for the removal of a public entity in the State from fiscal emergency.

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**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 Position 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 Position 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 2012?" The Statement of Net Position and the Statement of Activities answer this question. These statements include all assets and deferred outflows of resources and liabilities and deferred inflows of resources using the accrual basis of accounting similar to the accounting used by the private sector companies. This basis of accounting takes into accounts 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 position 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 Position 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 9. 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 and the bond retirement debt service 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

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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 Position 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 position looks at the City as a whole. Table 1 provides a summary of the City's net assets for 2012 compared to 2011.

(Table 1)  
Net Position

	Governmental Activities		
	2012	2011	Change
<b>Assets</b>			
Current and Other Assets	\$25,217,423	\$25,306,469	(\$89,046)
Capital Assets, Net	30,537,746	30,416,041	121,705
<i>Total Assets</i>	<u>55,755,169</u>	<u>55,722,510</u>	<u>32,659</u>
<b>Deferred Outflows of Resources</b>			
Deferred Charge on Refunding	293,486	0	293,486
<b>Liabilities</b>			
Current and Other Liabilities	5,035,126	6,801,054	1,765,928
Long-Term Liabilities:			
Due Within One Year	2,622,306	3,398,356	776,050
Due in More than One Year	29,541,222	30,461,967	920,745
<i>Total Liabilities</i>	<u>37,198,654</u>	<u>40,661,377</u>	<u>3,462,723</u>
<b>Deferred Inflows of Resources</b>			
Property Taxes	7,371,111	8,184,287	813,176
<b>Net Position</b>			
Net Investment in Capital Assets	11,780,173	10,363,567	1,416,606
Restricted:			
Capital Projects	901,009	783,410	117,599
Debt Service	2,071,012	1,868,849	202,163
Street Lighting	407,706	368,738	38,968
Courts	407,166	481,255	(74,089)
Other Purposes	1,412,885	922,999	489,886
Unrestricted (Deficit)	<u>(5,501,061)</u>	<u>(7,911,972)</u>	<u>2,410,911</u>
<i>Total Net Position</i>	<u>\$11,478,890</u>	<u>\$6,876,846</u>	<u>\$4,602,044</u>

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By comparing assets and liabilities, one can see the position of the City has increased as evidenced by the increase in net position. 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 position 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 position for the fiscal years 2012 and 2011.

Table 2  
Changes in Net Position

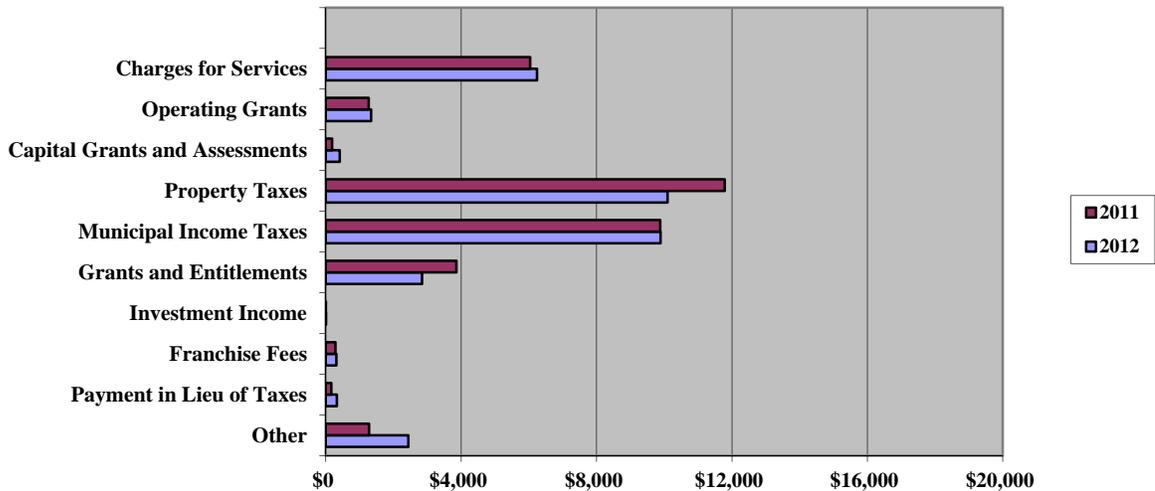
	Governmental Activities		
	2012	2011	Change
<b>Revenues</b>			
<b><i>Program Revenues</i></b>			
Charges for Services	\$6,241,269	\$6,038,628	\$202,641
Operating Grants	1,337,427	1,265,561	71,866
Capital Grants and Assessments	411,690	185,155	226,535
<b><i>Total Program Revenues</i></b>	<b>7,990,386</b>	<b>7,489,344</b>	<b>501,042</b>
<b><i>General Revenues</i></b>			
Property Taxes	10,097,852	11,785,804	(1,687,952)
Municipal Income Taxes	9,891,858	9,883,248	8,610
Grants and Entitlements not Restricted to Specific Programs	2,845,958	3,860,491	(1,014,533)
Payments in Lieu of Taxes	329,010	162,130	166,880
Interest	5,923	4,684	1,239
Franchise Fees	315,167	283,779	31,388
Other	2,440,492	1,276,320	1,164,172
<b><i>Total General Revenues</i></b>	<b>25,926,260</b>	<b>27,256,456</b>	<b>(1,330,196)</b>
<b><i>Total Revenues</i></b>	<b>33,916,646</b>	<b>34,745,800</b>	<b>(829,154)</b>
<b>Program Expenses</b>			
General Government	8,158,184	8,830,717	672,533
Security of Persons and Property	12,497,157	12,618,540	121,383
Public Health Services	248,973	561,509	312,536
Transportation	2,749,615	2,688,423	(61,192)
Community Development	478,890	172,313	(306,577)
Basic Utility Services	2,485,275	2,179,594	(305,681)
Leisure Time Activities	785,816	898,562	112,746
Interest and Fiscal Charges	1,910,692	1,505,946	(404,746)
<b><i>Total Program Expenses</i></b>	<b>29,314,602</b>	<b>29,455,604</b>	<b>141,002</b>
<b><i>Change in Net Position</i></b>	<b>4,602,044</b>	<b>5,290,196</b>	<b>(688,152)</b>
<b>Net Position Beginning of Year</b>	<b>6,876,846</b>	<b>1,586,650</b>	<b>5,290,196</b>
<b><i>Net Position End of Year</i></b>	<b>\$11,478,890</b>	<b>\$6,876,846</b>	<b>\$4,602,044</b>

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**Governmental Activities**

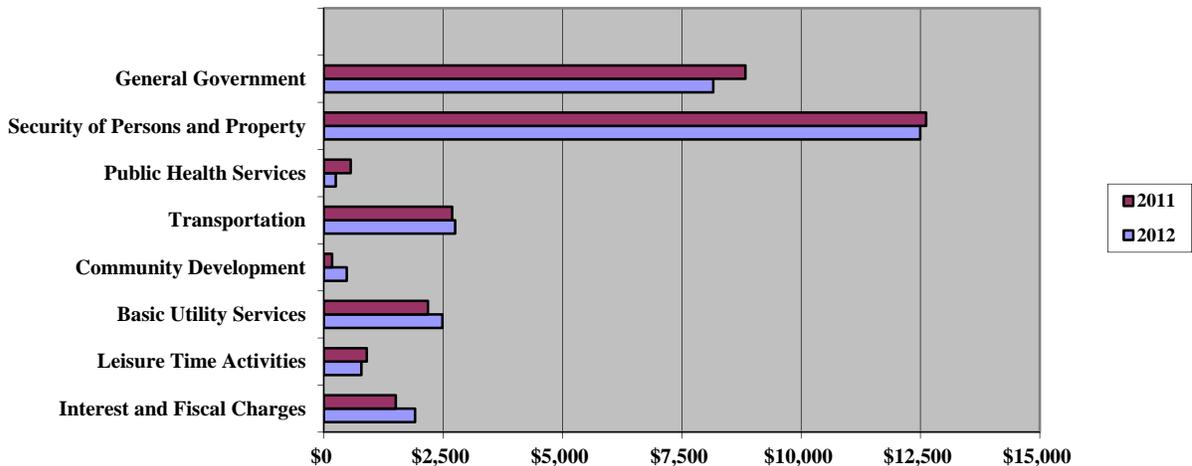
Several revenue sources fund our governmental activities, with property taxes being the largest. Property taxes decreased due to an increase in the delinquency rate for properties due to the general economic downturn being experienced in this area. Municipal income taxes are the second largest source of revenue. Municipal income taxes increased slightly in 2012. 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. Increases in many of the locally generated fees and charges for services combined with additional reductions in expenditures have had a great impact on the stabilization of the City's overall cash financial position through December 31, 2012.

**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 2011, as is shown in the chart below.

**Governmental Expenses (In Thousands)**



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Analysis of the revenue and expense charts above will indicate that although overall revenues were down from 2011 by \$829,154, overall expenditures were reduced by \$141,002, which resulted in an increase in Net Position of \$4,602,044.

**The City's Funds**

Information about the City's major governmental funds begins on page 16. 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 \$34,569,965 and total expenditures of \$30,838,118. The net effect for all governmental funds was a fund balance of \$761,044. This fund balance represents a decrease of the deficit fund balance that the City had at the end of 2011, which is the result of the City making a concerted effort to cut costs and increase and/or maintain 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 \$608,360 at year end, a decrease of the deficit fund balance of \$3,486,811 from 2011. The decrease was due to overall decreases in expenditures and corresponding increases in locally generated revenues. 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 than expected 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.

During the course of 2012, 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. In 2012 the City amended the form of its budgetary ordinances. In past years the City would budget to the individual line item thus not allowing for the Finance Director or the Departmental Director to make minor budget adjustments throughout the year. For the 2012 budgetary process the City's budgetary ordinance, and all amendments thereto, were compiled only to the object level, thus allowing for minor changes to be made within the object level grouping without the necessity of a formal ordinance to approve the change. 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 budgeted revenues were \$24,749,287, final budgeted revenues were \$24,813,452 and actual revenue collections were \$24,772,394. The small decrease of actual revenues from the budgeted amounts were increases in charges for services and intergovernmental offset by decreases to municipal income taxes. The increases can be attributed to legislative increases for local business regulations and increased intergovernmental revenues. The City of Garfield Heights' ending balance in the general fund was \$372,595 above the final budgeted amount, thus resulting in a fund balance of \$1,216,227. Should the general economic conditions of the area continue their downward spiral, the City administration and elected

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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		
	2012	2011	Change
Land	\$1,665,810	\$1,573,091	\$92,719
Buildings and Improvements	11,128,092	11,552,335	(424,243)
Vehicles	1,577,846	1,855,938	(278,092)
Machinery and Equipment	850,650	888,416	(37,766)
Furniture and Fixtures	104,640	117,958	(13,318)
Infrastructure	15,210,708	14,428,303	782,405
Total	\$30,537,746	\$30,416,041	\$121,705

Total capital assets for the City of Garfield Heights as of December 31, 2012 increased from 2011. There were additions to vehicles, machinery and equipment, furniture and fixtures and infrastructure which exceeded current year depreciation which accounted for the increase. See Note 10 for additional information on the City's capital assets.

***Long Term Debt***

The City's overall legal debt margin at December 31, 2012 was \$22,126,359. Table 4 indicates the total outstanding long-term debt of the City.

Table 4  
 Long-Term Debt at Year End

	Governmental Activities		
	2012	2011	Change
General Obligation Bonds	\$26,090,068	\$28,038,685	(\$1,948,617)
Special Assessment Bonds	474,991	609,171	(134,180)
Police and Fire Liability	576,465	591,576	(15,111)
Total	\$27,141,524	\$29,239,432	(\$2,097,908)

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During 2012, the City issued \$5,775,000 in general obligation bonds for the purpose of refunding the 2002 various improvement general obligation bonds in order to take advantage of lower interest rates.

During 2012, the City continued to pay down their debt. 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 \$576,465 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. This trend continued through 2010 and 2011, however during this period the City had been informed of many upcoming construction projects that will have a positive impact on our future.

The first of these is that OverDrive, Inc. has chosen the City of Garfield Heights as the site in which it is building their new world headquarters. Overdrive, Inc. is a computer software corporation that manufactures the software utilized in the Kindle, and other e-book type units, and is used by many library systems both nationally and internationally. OverDrive, Inc. successfully negotiated the purchase of an old, dilapidated warehouse at the top of Granger Road hill in Garfield Heights, demolished the existing structure, and in the fall of 2011 began the construction of their new world headquarters. This new structure was completed in September 2012, at which time the company began moving their current staff of 165 employees into the facility, which was completed by year end. Additionally, the company expects to increase its employee base at the facility by at least 20 new employees each year for the next 3 years..

The second major construction project progressing in the City is that of a new branch of the Cuyahoga County Library System. The system has had a branch library in Garfield Heights since the middle 1960's, which occupied a City owned structure that was built then for the branch library under a long term government lease agreement. In order for the new construction to progress, the City had to transfer ownership of the building and land to the Library System. The construction plan was for the demolition of the old existing structure, to begin in the early spring of 2012, and the construction of the new \$11 million facility thereafter. The construction of this facility has progressed on the time line the Library System had originally projected, with the Library System projected to occupy the new facility in September 2013.

Throughout 2010 and 2011, Marymount Hospital, the City's largest employer, constructed a new surgical wing and the renovated of the old surgery facility into a recovery center. This construction and renovation project was at an estimated total cost of \$45 million, and follows a \$40 million plus hospital renovation that was completed just 5 to 6 years prior. The new surgical center opened in March of 2012, with the renovation portion of the project beginning thereafter, and is still in the process of being completed.

As is the case with many governmental agencies, dated infrastructure can be a problem. However, over the past 20 years, the City had taken a proactive stance in regards to dated infrastructure and plans to continue this effort of improving infrastructure as the need arises. At the beginning of the City's financial troubles,

**City of Garfield Heights, Ohio**  
*Management's Discussion and Analysis*  
*For the Year Ended December 31, 2012*  
*Unaudited*

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dating to 2008, the City's infrastructure improvements were put on temporary hold. During 2012, the City was informed of major roadway improvements that will be taking place within the City. Through cooperation agreements with Cuyahoga County, the State Department of Transportation, the Ohio Public Works Commission, and neighboring communities, various roadway projects are now slated for construction. These include the reconstruction of McCracken Road (2012), the resurfacing of Turney Road (2015), Granger Road (2013) and Rockside Road (2013). Additionally, through the use of storm and sanitary sewer funds and cooperation agreements with the Cuyahoga County Department of Public Works, many sewer system problem areas have been or will in the near future be remedied. These include a Catch Basin Repair Project (2011-2012), the North Granger Sewer Replacement Project (2011-2012), the Thraves/Grannis Sewer Project (2011-2012), the Rosewood/Bancroft Sewer Project (2012-2013), the west End of Grand Division Storm Sewer Project (2012-2013), and the Wallingford/East 112<sup>th</sup> Street Sanitary Sewer Project (2012-2013).

During 2011, the State of Ohio EPA lifted its ban on the continued construction of Transportation Blvd. through to Rockside Road. This project began in the early 2000's and is a brown-field reclamation project. It will involve the construction of a roadway and future development, on private land, over a closed landfill. The State EPA halted the project around 2007 when complications arose with the then newly constructed City View retail shopping center. In the summer of 2011, the State of Ohio EPA issued a permit to the landowner for the continuation of the construction of the roadway on through to Rockside Road. The landowner has a 3 year period in which to construct this roadway. Projections are for the project to begin in 2012 with the accumulation of capping material with projected roadway construction to begin in 2013. To date the capping material continues to be aggregated on the property and preliminary engineering site plans are being compiled for the initial roadway development of this project site.

**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 Position*

*December 31, 2012*

	<u>Governmental Activities</u>
<b>Assets</b>	
Equity in Pooled Cash and Cash Equivalents	\$3,576,671
Cash and Cash Equivalents In Segregated Accounts	183
Accounts Receivable	1,032,295
Intergovernmental Receivable	2,187,134
Prepaid Items	37,510
Materials and Supplies Inventory	137,001
Municipal Income Taxes Receivable	3,648,102
Property Taxes Receivable	13,965,531
Special Assessments Receivable	474,991
Payments in Lieu of Taxes Receivable	158,005
Nondepreciable Capital Assets	1,665,810
Depreciable Capital Assets, Net	<u>28,871,936</u>
<i>Total Assets</i>	<u>55,755,169</u>
<b>Deferred Outflows of Resources</b>	
Deferred Charge on Refunding	<u>293,486</u>
<b>Liabilities</b>	
Accounts Payable	246,523
Contracts Payable	214,609
Accrued Wages	219,876
Retainage Payable	71,658
Intergovernmental Payable	1,404,340
Unearned Revenue	1,208,300
Accrued Interest Payable	75,739
Notes Payable	1,295,406
Claims Payable	298,675
Long-Term Liabilities:	
Due Within One Year	2,622,306
Due In More Than One Year	<u>29,541,222</u>
<i>Total Liabilities</i>	<u>37,198,654</u>
<b>Deferred Inflows of Resources</b>	
Property Taxes	7,371,111
<b>Net Position</b>	
Net Investment in Capital Assets	11,780,173
Restricted for:	
Capital Projects	901,009
Debt Service	2,071,012
Street Lighting	407,706
Courts	407,166
Other Purposes	1,412,885
Unrestricted (Deficit)	<u>(5,501,061)</u>
<i>Total Net Position</i>	<u>\$11,478,890</u>

The accompanying notes are an integral part of these financial statements

**City of Garfield Heights, Ohio**  
*Statement of Activities*  
For the Year Ended December 31, 2012

	Program Revenues				Net (Expense)
	Expenses	Charges for Services	Operating Grants	Capital Grants and Assessments	Revenue and Changes in Net Position
<b>Governmental Activities:</b>					
General Government	\$8,158,184	\$2,552,795	\$272,548	\$411,690	(\$4,921,151)
Security of Persons and Property	12,497,157	2,680,490	36,038	0	(9,780,629)
Public Health Services	248,973	52,703	56	0	(196,214)
Transportation	2,749,615	206,856	951,587	0	(1,591,172)
Community Development	478,890	109,408	2,402	0	(367,080)
Basic Utility Services	2,485,275	471,308	69,073	0	(1,944,894)
Leisure Time Activities	785,816	167,709	5,723	0	(612,384)
Interest and Fiscal Charges	1,910,692	0	0	0	(1,910,692)
<b>Totals</b>	<b>\$29,314,602</b>	<b>\$6,241,269</b>	<b>\$1,337,427</b>	<b>\$411,690</b>	<b>(21,324,216)</b>

**General Revenues**

Property Taxes Levied for:

General Purposes	7,199,380
Street Lighting	416,289
Police Pension	108,596
Fire Pension	108,596
Debt Service	1,317,642
Capital Outlay	947,349

Municipal Income Tax Levied for:

General Purposes	8,486,660
Street Construction, Maintenance and Repair	43,276
Debt Service	733,289
Capital Outlay	628,633

Grants and Entitlements not

Restricted to Specific Programs	2,845,958
Payments in Lieu of Taxes	329,010
Interest	5,923
Franchise Fees	315,167
Other	2,440,492

*Total General Revenues* 25,926,260

Change in Net Position 4,602,044

*Net Position Beginning of Year* 6,876,846

*Net Position End of Year* \$11,478,890

The accompanying notes are an integral part of these financial statements

**City of Garfield Heights, Ohio**

*Balance Sheet  
Governmental Funds  
December 31, 2012*

	General	Bond Retirement	Other Governmental Funds	Total Governmental Funds
<b>Assets</b>				
Equity in Pooled Cash and Cash Equivalents	\$1,529,103	\$136,859	\$1,910,709	\$3,576,671
Cash and Cash Equivalents In Segregated Accounts	0	0	183	183
Accounts Receivable	969,046	0	63,249	1,032,295
Intergovernmental Receivable	939,849	376,186	871,099	2,187,134
Prepaid Items	30,530	0	6,980	37,510
Materials and Supplies Inventory	52,659	0	84,342	137,001
Payments in Lieu of Taxes Receivable	0	0	158,005	158,005
Municipal Income Taxes Receivable	2,954,963	255,367	437,772	3,648,102
Property Taxes Receivable	10,660,351	1,882,762	1,422,418	13,965,531
Special Assessments Receivable	0	474,991	0	474,991
<i>Total Assets</i>	<u>\$17,136,501</u>	<u>\$3,126,165</u>	<u>\$4,954,757</u>	<u>\$25,217,423</u>
<b>Liabilities</b>				
Accounts Payable	\$186,116	\$0	\$60,407	\$246,523
Contracts Payable	205,142	0	9,467	214,609
Accrued Wages	189,652	0	30,224	219,876
Retainage Payable	71,658	0	0	71,658
Intergovernmental Payable	926,604	0	477,736	1,404,340
Unearned Revenue	666,904	0	541,396	1,208,300
Accrued Interest Payable	10,267	0	0	10,267
Notes Payable	1,295,406	0	0	1,295,406
Claims Payable	265,838	0	32,837	298,675
<i>Total Liabilities</i>	<u>3,817,587</u>	<u>0</u>	<u>1,152,067</u>	<u>4,969,654</u>
<b>Deferred Inflows of Resources</b>				
Unavailable Revenue	8,300,662	1,930,585	1,884,367	12,115,614
Property Taxes	5,626,612	993,736	750,763	7,371,111
<i>Total Deferred Inflows of Resources</i>	<u>13,927,274</u>	<u>2,924,321</u>	<u>2,635,130</u>	<u>19,486,725</u>
<b>Fund Balances</b>				
Nonspendable	193,655	0	91,322	284,977
Restricted	0	201,844	1,704,286	1,906,130
Assigned	3,706,287	0	0	3,706,287
Unassigned (Deficit)	(4,508,302)	0	(628,048)	(5,136,350)
<i>Total Fund Balances (Deficit)</i>	<u>(608,360)</u>	<u>201,844</u>	<u>1,167,560</u>	<u>761,044</u>
<i>Total Liabilities and Fund Balances</i>	<u>\$17,136,501</u>	<u>\$3,126,165</u>	<u>\$4,954,757</u>	<u>\$25,217,423</u>

The accompanying notes are an integral part of these financial statements

**City of Garfield Heights, Ohio**  
*Reconciliation of Total Governmental Fund Balances to  
 Net Position of Governmental Activities  
 December 31, 2012*

<b>Total Governmental Fund Balances</b>	<b>\$761,044</b>
 <i>Amounts reported for governmental activities in the statement of net position are different because</i>	
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.	30,537,746
Other long-term assets are not available to pay for current-period expenditures and therefore are deferred in the funds:	
Property Taxes	6,594,420
Municipal Income Taxes	2,803,245
Intergovernmental	1,911,177
Charges for Services	173,776
Payments in Lieu of Taxes	158,005
Special Assessments	<u>474,991</u>
Total	12,115,614
Deferred Outflows of Resources represent deferred charges on refunding which are not reported in the funds.	293,486
In the statement of activities, interest is accrued on outstanding bonds, whereas in governmental funds, an interest expenditure is reported when due.	(65,472)
Long-term liabilities are not due and payable in the current period and therefore are not reported in the funds:	
General Obligation Bonds	(26,090,068)
Special Assessment Bonds	(474,991)
Compensated Absences	(4,414,867)
Claims Payable	(607,137)
Police and Fire Liability	<u>(576,465)</u>
Total	<u>(32,163,528)</u>
 <i>Net Position of Governmental Activities</i>	 <u><u>\$11,478,890</u></u>

The accompanying notes are an integral part of these financial statements

**City of Garfield Heights, Ohio**  
*Statement of Revenues, Expenditures and Changes in Fund Balances*  
*Governmental Funds*  
*For the Year Ended December 31, 2012*

	General	Bond Retirement	Other Governmental Funds	Total Governmental Funds
<b>Revenues</b>				
Property Taxes	\$6,711,573	\$1,352,524	\$1,607,183	\$9,671,280
Municipal Income Taxes	8,015,201	692,546	602,063	9,309,810
Special Assessments	0	273,919	0	273,919
Charges for Services	5,635,354	0	221,275	5,856,629
Fees, Licenses and Permits	401,563	0	467	402,030
Fines and Forfeitures	700,851	0	881,110	1,581,961
Intergovernmental	2,912,875	179,376	1,449,498	4,541,749
Interest	4,943	779	201	5,923
Franchise Fees	315,167	0	0	315,167
Payments in Lieu of Taxes	0	0	171,005	171,005
Other	430,929	0	2,009,563	2,440,492
<i>Total Revenues</i>	<u>25,128,456</u>	<u>2,499,144</u>	<u>6,942,365</u>	<u>34,569,965</u>
<b>Expenditures</b>				
Current:				
General Government	6,608,474	27,083	903,124	7,538,681
Security of Persons and Property	10,413,558	0	1,570,518	11,984,076
Public Health Services	207,883	0	0	207,883
Transportation	0	0	1,636,780	1,636,780
Community Development	444,202	0	25,317	469,519
Basic Utility Services	1,886,642	0	446,394	2,333,036
Leisure Time Activities	724,405	0	0	724,405
Capital Outlay	0	0	2,275,145	2,275,145
Debt Service:				
Principal Retirement	0	2,313,000	15,111	2,328,111
Interest and Fiscal Charges	86,468	1,091,980	24,984	1,203,432
Bond Issuance Costs	0	137,050	0	137,050
<i>Total Expenditures</i>	<u>20,371,632</u>	<u>3,569,113</u>	<u>6,897,373</u>	<u>30,838,118</u>
<i>Excess of Revenues Over (Under) Expenditures</i>	<u>4,756,824</u>	<u>(1,069,969)</u>	<u>44,992</u>	<u>3,731,847</u>
<b>Other Financing Sources (Uses)</b>				
Proceeds of Bonds	0	5,775,000	0	5,775,000
Discount on Bonds	0	(21,373)	0	(21,373)
Payment to Refunded Escrow Agent	0	(5,760,425)	0	(5,760,425)
Transfers In	134,651	1,044,161	1,406,164	2,584,976
Transfers Out	(1,404,664)	0	(1,180,312)	(2,584,976)
<i>Total Other Financing Sources (Uses)</i>	<u>(1,270,013)</u>	<u>1,037,363</u>	<u>225,852</u>	<u>(6,798)</u>
<i>Net Change in Fund Balances</i>	3,486,811	(32,606)	270,844	3,725,049
<i>Fund Balances (Deficit)</i>				
<i>Beginning of Year</i>	<u>(4,095,171)</u>	<u>234,450</u>	<u>896,716</u>	<u>(2,964,005)</u>
<i>Fund Balances (Deficit) End of Year</i>	<u>(\$608,360)</u>	<u>\$201,844</u>	<u>\$1,167,560</u>	<u>\$761,044</u>

The accompanying notes are an integral part of these 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, 2012*

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**Net Change in Fund Balances - Total Governmental Funds** \$3,725,049

*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	2,659,308	
Depreciation	(2,067,774)	
Total		591,534

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. (469,829)

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

Property Taxes	426,572	
Municipal Income Taxes	582,048	
Intergovernmental	(86,413)	
Charges for Services	(1,599,351)	
Payments in Lieu of Taxes	158,005	
Special Assessments	(134,180)	
Total		(653,319)

Repayment of long-term obligations is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net position. 2,328,111

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	15,335	
Amortization of Bond Issuance Costs	(597,007)	
Amortization of Loss on Refunding	(6,962)	
Amortization of Bond Discount	(236)	
Amortization of Bond Premium	18,660	
Total		(570,210)

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	(154,560)	
Claims	(201,530)	
Total		(356,090)

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

Proceeds of Bonds	(5,775,000)	
Payment to Refunded Bond Escrow Agent	5,760,425	
Discount on Bonds	21,373	
Total		6,798

*Change in Net Position of Governmental Activities* \$4,602,044

The accompanying notes are an integral part of these 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, 2012*

	Budgeted Amounts		Actual	Variance with
	Original	Final		Final Budget
				Positive (Negative)
<b>Revenues</b>				
Property Taxes	\$6,711,687	\$6,711,687	\$6,711,573	(\$114)
Municipal Income Taxes	7,967,876	8,032,041	7,902,434	(129,607)
Charges for Services	5,678,859	5,678,859	5,721,406	42,547
Fees, Licenses and Permits	387,982	387,982	399,058	11,076
Fines and Forfeitures	698,594	698,594	698,595	1
Intergovernmental	2,500,629	2,500,629	2,519,494	18,865
Interest	4,629	4,629	4,943	314
Franchise Fees	315,166	315,166	315,167	1
Other	483,865	483,865	499,724	15,859
<i>Total Revenues</i>	<u>24,749,287</u>	<u>24,813,452</u>	<u>24,772,394</u>	<u>(41,058)</u>
<b>Expenditures</b>				
Current:				
General Government	5,980,938	7,124,537	6,731,555	392,982
Security of Persons and Property	10,967,756	10,926,470	10,831,229	95,241
Public Health Services	190,756	205,715	201,494	4,221
Leisure Time Activities	827,054	882,693	767,046	115,647
Community Development	511,598	475,664	453,167	22,497
Basic Utility Services	1,808,000	2,045,000	2,044,637	363
<i>Total Expenditures</i>	<u>20,286,102</u>	<u>21,660,079</u>	<u>21,029,128</u>	<u>630,951</u>
<i>Excess of Revenues Over Expenditures</i>	<u>4,463,185</u>	<u>3,153,373</u>	<u>3,743,266</u>	<u>589,893</u>
<b>Other Financing Sources (Uses)</b>				
Transfers In	0	472,476	134,651	(337,825)
Transfers Out	(4,442,719)	(1,525,191)	(1,404,664)	120,527
<i>Total Other Financing Sources (Uses)</i>	<u>(4,442,719)</u>	<u>(1,052,715)</u>	<u>(1,270,013)</u>	<u>(217,298)</u>
<i>Net Change in Fund Balance</i>	20,466	2,100,658	2,473,253	372,595
<i>Fund Deficit Beginning of Year</i>	(1,335,569)	(1,335,569)	(1,335,569)	0
Prior Year Encumbrances Appropriated	78,543	78,543	78,543	0
<i>Fund Balance (Deficit) End of Year</i>	<u>(\$1,236,560)</u>	<u>\$843,632</u>	<u>\$1,216,227</u>	<u>\$372,595</u>

The accompanying notes are an integral part of these financial statements

**City of Garfield Heights, Ohio**  
*Statement of Fiduciary Assets and Liabilities*  
*Agency Funds*  
*December 31, 2012*

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	<u>Agency</u>
<b>Assets</b>	
Cash and Cash Equivalents in Segregated Accounts	<u>\$965,533</u>
<b>Liabilities</b>	
Intergovernmental Payable	\$795,846
Due to Others	<u>169,687</u>
<i>Total Liabilities</i>	<u>\$965,533</u>

The accompanying notes are an integral part of these financial statements

**City of Garfield Heights, Ohio**  
*Notes to the Basic Financial Statements*  
*For the Year Ended December 31, 2012*

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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 seven Council members elect one of their own to act as the President of Council and the President Pro-Tem. 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 19 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.

**City of Garfield Heights, Ohio**  
*Notes to the Basic Financial Statements*  
*For the Year Ended December 31, 2012*

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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 these organizations is presented in Note 16 to the basic financial statements.

## **Note 2 - Summary of Significant Accounting Policies**

The financial statements of the City of Garfield Heights have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. 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 position and a statement of activities, and fund financial statements which provide a more detailed level of financial information.

***Government-wide Financial Statements*** The statement of net position and the statement of activities display information about the City as a whole. These statements include the financial activities of the primary government, except for fiduciary funds. 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 position presents the financial condition of the governmental activities of the City at year-end. The statement of activities presents a comparison between direct expenses and program revenues for each program or function of the City's governmental activities. Direct expenses are those that are specifically associated with a service, program or department and therefore 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.

**City of Garfield Heights, Ohio**  
*Notes to the Basic Financial Statements*  
*For the Year Ended December 31, 2012*

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***Governmental Funds***

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

***General Fund*** The general fund accounts for and reports all financial resources except those required to be accounted for and reported 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*** This fund is used to account for and report the accumulation of restricted debt proceeds, and the payment of, general long-term and special assessment principal, interest and related costs.

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

***Fiduciary Fund***

Fiduciary fund reporting focuses on net position and changes in net position. The fiduciary fund category is split into four classifications: pension trust funds, investment trust funds, private purpose trust funds and agency funds. Trust funds are used to account for assets held by the City under a trust agreement for individuals, private organizations, or other governments and are therefore not available to support the City's own programs. The City has no trust funds. 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 Cleveland 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 deferred outflows of resources and all liabilities and deferred inflows of resources associated with the operation of the City are included on the statement of net position. The statement of activities presents increases (e.g. revenues) and decreases (e.g. expenses) in total net position.

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

**City of Garfield Heights, Ohio**  
*Notes to the Basic Financial Statements*  
*For the Year Ended December 31, 2012*

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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 outflows/inflows of resources, 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.

Non-exchange transactions, in which the City receives value without directly giving equal value in return, include income taxes, property taxes, grants, entitlements and donations. On an accrual basis, revenue from income taxes is recognized in the period in which the income is earned. Revenue from property taxes is recognized in the year for which the taxes are levied. (See Note 9) Revenue from grants, entitlements and donations is recognized in the year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the year when use is first permitted, matching requirements, in which the City must provide local resources to be used for a specified purpose, and expenditure requirements, in which the resources are provided to the City on a reimbursement basis. On a modified accrual basis, revenue from non-exchange transactions must also be available before it can be recognized.

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

Unearned revenue represents amounts under the accrual and modified accrual basis of accounting for which asset recognition criteria have been met, but for which revenue recognition criteria have not yet been met because such amounts have not yet been earned.

***Deferred Outflows/Inflows of Resources*** In addition to assets, the statements of financial position will sometimes report a separate section for deferred outflows of resources. Deferred outflows of resources, represents a consumption of net position that applies to a future period and will not be recognized as an outflow of resources (expense/expenditure) until then. For the City, deferred outflows of resources include a deferred charge on refunding reported in the government-wide statement of net position. A deferred charge on refunding results from the difference in the carrying value of refunded debt and its reacquisition price. This amount is deferred and amortized over the shorter of the life of the refunded or refunding debt.

In addition to liabilities, the statements of financial position report a separate section for deferred inflows of resources. Deferred inflows of resources represent an acquisition of net position that applies to a future period and will not be recognized as an inflow of resources (revenue) until that time. For the City, deferred inflows of resources include property taxes and unavailable revenue. Property taxes represent amounts for which there is an enforceable legal claim as of December 31, 2012, but which were levied to finance year

**City of Garfield Heights, Ohio**  
*Notes to the Basic Financial Statements*  
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2013 operations. These amounts have been recorded as a deferred inflow on both the government-wide statement of net position and the governmental fund financial statements. Unavailable revenue is reported only on the governmental funds balance sheet, and represents receivables which will not be collected within the available period. For the City unavailable revenue includes delinquent property, income taxes and intergovernmental grants. These amounts are deferred and recognized as an inflow of resources in the period the amounts become available.

***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.

***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.

Investment procedures are restricted by the provisions of the Ohio Revised Code. Interest revenue credited to the general fund during 2012 amounted to \$4,943, \$2,411 of which was assigned from other City funds.

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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.

***Prepaid Items***

Payments made to vendors for services that will benefit periods beyond December 31, 2011 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 position 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.

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*Notes to the Basic Financial Statements*  
*For the Year Ended December 31, 2012*

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***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 position.

***Compensated Absences***

Vacation benefits are accrued as a liability as the benefits are earned if the employees’ rights to receive the compensation are attributable to services already rendered and it is probable that the City will compensate the employees for the benefits through paid time off or some other means. Sick leave benefits are accrued as a liability using the vesting method. The liability includes the employees who are currently eligible to receive termination benefits and those the City has identified as probable of receiving payment in the future. The amount is based on accumulated sick leave and employees’ wage rates at year end, taking into consideration any limits in the City’s termination policy. The City records a liability for accumulated unused vacation and sick leave for all employees after one year of service.

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

***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 and compensated absences 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***

Fund balance is divided into five classifications based primarily on the extent to which the City is bound to observe constraints imposed upon the use of the resources in the governmental funds. The classifications are as follows:

***Nonspendable*** The nonspendable fund balance category includes amounts that cannot be spent because they are not in spendable form, or legally or contractually required to be maintained intact. The “not in spendable form” criterion includes items that are not expected to be converted to cash.

***Restricted*** Fund balance is reported as restricted when constraints placed on the use of resources are either externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments or is imposed by law through constitutional provisions or enabling legislation (City ordinances).

Enabling legislation authorizes the City to assess, levy, charge, or otherwise mandate payment of resources (from external resource providers) and includes a legally enforceable requirement that those resources be used only for the specific purposes stipulated in the legislation. Legal

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enforceability means that the City can be compelled by an external party-such as citizens, public interest groups, or the judiciary to use resources created by enabling legislation only for the purposes specified by the legislation.

***Committed*** The committed fund balance classification includes amounts that can be used only for the specific purposes imposed by formal action (ordinances or resolution as both are legally binding) of City Council. Those committed amounts cannot be used for any other purpose unless City Council removes or changes the specified use by taking the same type of action (ordinances or resolution as both are legally binding) it employed to previously commit those amounts. In contrast to fund balance that is restricted by enabling legislation, the committed fund balance classification may be redeployed for other purposes with appropriate due process. Constraints imposed on the use of committed amounts are imposed by City Council, separate from the authorization to raise the underlying revenue; therefore, compliance with these constraints is not considered to be legally enforceable. Committed fund balance also incorporates contractual obligations to the extent that existing resources in the fund have been specifically committed for use in satisfying those contractual requirements.

***Assigned*** Amounts in the assigned fund balance classification are intended to be used by the City for specific purposes but do not meet the criteria to be classified as restricted or committed. In governmental funds other than the general fund, assigned fund balance represents the remaining amount that is not restricted or committed. These amounts are assigned by council. In the general fund, assigned amounts represent intended uses established by City Council or a City official delegated that authority by City Charter or ordinance, or by State Statute. Council assigned fund balance to cover a gap between estimated revenue and appropriations in 2013's appropriated budget.

***Unassigned*** Unassigned fund balance is the residual classification for the general fund and includes all spendable amounts not contained in the other classifications. In other governmental funds, the unassigned classification is used only to report a deficit fund balance.

### ***Net Position***

Net Position represents the difference between all other elements in a statement of financial position. Net investment in capital assets consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowing used for the acquisition, construction or improvement of those assets. Net position is reported as restricted when there are limitations imposed on their use either through constitutional provisions or enabling legislation adopted by the City or through external restrictions imposed by creditors, grantors or laws or regulations of other governments. Net position restricted for other purposes include the operations of the street lighting, donations to the Edward J. Domino Trust and termination leave payments.

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

**City of Garfield Heights, Ohio**  
*Notes to the Basic Financial Statements*  
*For the Year Ended December 31, 2012*

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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.

***Deferred Charge 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 and is presented as deferred outflows of resources on the statement of net position.

***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 – Changes in Accounting Principles**

For 2012, the City has implemented Governmental Accounting Standard Board (GASB) Statement No. 60, “Accounting and Financial Reporting for Service Concession Arrangements,” Statement No. 62, “Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989, FASB and AICPA Pronouncements,” Statement No. 63, “Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position,” Statement No. 64, “Derivative Instruments: Application of Hedge Accounting Termination Provisions – an amendment of GASB Statement No. 53”, Statement No. 65, “Items Previously Reported as Assets and Liabilities” and Statement No. 66, “Technical Corrections–2012—an amendment of GASB Statements No. 10 and No. 62.”

**City of Garfield Heights, Ohio**  
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GASB Statement No. 60 improves financial reporting by addressing issues related to service concession arrangements, which are a type of public-private or public-public partnership. The implementation of this statement did not result in any change in the City's financial statements.

GASB Statement No. 62 incorporates into GASB's authoritative literature certain FASB and AICPA pronouncements issued on or before November 30, 1989. The implementation of this statement did not result in any change in the City's financial statements.

GASB Statement No. 63 provides guidance for reporting deferred outflows of resources, deferred inflows of resources, and net position in a statement of financial position and related note disclosures. These changes were incorporated in the City's financial statements; however, there was no effect on beginning net position/fund balance.

GASB Statement No. 64 clarifies whether an effective hedging relationship continues after the replacement of a swap counterparty or a swap counterparty's credit support provider. This Statement sets forth criteria that establish when the effective hedging relationship continues and hedge accounting should continue to be applied. The implementation of this statement did not result in any change in the City's financial statements.

GASB Statement No. 65 properly classifies certain items that were previously reported as assets and liabilities as deferred outflows of resources or deferred inflows of resources or recognizes certain items that were previously reported as assets and liabilities as outflows of resources (expenses or expenditures) or inflows of resources (revenues). These changes were incorporated in the City's financial statements; however, there was no effect on beginning net position/fund balance.

GASB Statement No. 66 resolves conflicting accounting and financial reporting guidance that could diminish the consistency of financial reporting and thereby enhance the usefulness of the financial reports. The implementation of this statement did not result in any change in 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 restricted, committed or assigned 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.

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5. Budgetary revenues and expenditures of the recreation and federal nutrition funds are classified to the general fund for GAAP reporting.

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	\$3,486,811
Net Adjustment for Revenue Accruals	838,883
Beginning Unrecorded Cash	(229,019)
Ending Unrecorded Cash	47,734
Excess of revenues over (under) expenditures:	
Recreation	148,162
Federal Nutrition	9,493
Net Adjustment for Expenditure Accruals	(1,324,062)
Encumbrances	(504,749)
Budget Basis	\$2,473,253

**Note 5 - Accountability and Compliance**

***Accountability***

The following funds had deficit fund balances as of December 31, 2012:

<b><i>General Fund</i></b>	\$608,360
<b><i>Special Revenue Funds</i></b>	
Police Pension	201,415
Fire Pension	201,306
<b><i>Capital Projects Funds</i></b>	
Permanent Improvement	225,164

The general fund concluded 2012 with a deficit fund balance of \$608,360. 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 19 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 was placed in fiscal emergency as a result of deficit spending which resulted in deficit funds contrary to the provisions of Chapter 5705, Revised Code. These violations were cited extensively (repeatedly) in the reports leading up to the declaration of emergency. While in emergency, it is anticipated that these violations will continue until the City regains financial stability. Until that time, only new violations in funds that were not in deficit at the time of the emergency declaration will be cited.

**City of Garfield Heights, Ohio**  
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**Note 6 - Fund Balances**

Fund balance is classified as nonspendable, restricted, committed, assigned and/or unassigned based primarily on the extent to which the City is bound to observe constraints imposed upon the use of the resources in the government funds. The constraints placed on fund balance for the major governmental funds and all other governmental funds are presented below:

Fund Balances	General	Bond Retirement	Nonmajor Governmental Funds	Total
<i><b>Nonspendable</b></i>				
Prepaid Items	\$30,530	\$0	\$6,980	\$37,510
Materials and Supplies Inventory	52,659	0	84,342	137,001
Unclaimed Monies	110,466	0	0	110,466
<i>Total Nonspendable</i>	<u>193,655</u>	<u>0</u>	<u>91,322</u>	<u>284,977</u>
<i><b>Restricted for</b></i>				
Municipal Court	0	0	532,321	532,321
Public Safety	0	0	458,962	458,962
Street Maintenance	0	0	235,732	235,732
Debt Service Payments	0	201,844	0	201,844
Street Lighting	0	0	91,959	91,959
Capital Improvements	0	0	385,312	385,312
<i>Total Restricted</i>	<u>0</u>	<u>201,844</u>	<u>1,704,286</u>	<u>1,906,130</u>
<i><b>Assigned to</b></i>				
2013 Appropriations	3,706,287	0	0	3,706,287
<i>Unassigned (Deficit)</i>	<u>(4,508,302)</u>	<u>0</u>	<u>(628,048)</u>	<u>(5,136,350)</u>
<i>Total Fund Balances (Deficit)</i>	<u>(\$608,360)</u>	<u>\$201,844</u>	<u>\$1,167,560</u>	<u>\$761,044</u>

**Note 7 - Deposits and Investments**

The City is a charter City and 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.

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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.

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, \$3,522,455 of the City's bank balance of \$4,147,002 was uninsured and uncollateralized. Although the securities were held

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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 8 - 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, 2012.

### ***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 9 – Receivables**

Receivables at December 31, 2012 consisted primarily of municipal income taxes, property taxes, payments in lieu of taxes, accounts, intergovernmental, interfund receivables and special assessments.

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 \$338,067 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 2012 for real and public utility property taxes represents collections of the 2011 taxes. Property tax payments received during 2012 for tangible personal property (other than public utility property) are for 2012 taxes.

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2012 real property taxes are levied after October 1, 2012, on the assessed value as of January 1, 2012, the lien date. Assessed values are established by State law at 35 percent of appraised market value. 2012 real property taxes are collected in and intended to finance 2013.

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

Public utility tangible personal property currently is assessed at varying percentages of true value; public utility real property is assessed at 35 percent of true value. 2012 public utility property taxes which became a lien December 31, 2011, are levied after October 1, 2012, and are collected in 2013 with real property taxes.

The full tax rate for all City operations for the year ended December 31, 2012, was \$24.30 per \$1,000 of assessed value. The assessed values of real and tangible personal property upon which 2012 property tax receipts were based as follows:

	Assessed Valuation
Real Estate	
Residential/Agriculture	\$269,313,750
Commercial Industrial/Public Utility	96,978,770
Tangible Personal Property	
Public Utility	10,420,510
Total	\$376,713,030

The County Fiscal Officer collects property taxes on behalf of all taxing districts in the County, including the City of Garfield Heights and periodically remits to the City its portion of the taxes collected. Property taxes receivable represents real property taxes, public utility taxes and outstanding delinquencies which are measurable as of December 31, 2012 and for which there is an enforceable legal claim. In governmental funds, the portion of the receivable not levied to finance 2012 operations is offset to deferred inflows of resources – property taxes. On an accrual basis, collectible delinquent property taxes have been recorded as a receivable and revenue, while on a modified accrual basis the revenue has been reported as deferred inflows of resources – unavailable revenue.

***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: 81 percent to the general fund, 6 percent to the street construction maintenance and repair special revenue fund, 7 percent to the bond retirement debt service fund and 6 percent to the storm and sanitary sewer capital projects fund.

**City of Garfield Heights, Ohio**  
*Notes to the Basic Financial Statements*  
*For the Year Ended December 31, 2012*

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***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 Cuyahoga County Port Authority. The payable for this portion has been reported in the City's agency fund.

***Intergovernmental Receivables***

A summary of the principal items of intergovernmental receivables follows:

	<u>Amount</u>
Homestead and Rollback	\$736,888
Gas Tax	377,726
Local Government	305,272
Grants	295,814
Inheritance Tax	217,972
Motor Vehicle License	84,810
Permissive Tax	77,190
Cuyahoga County	76,269
Various Cities	10,645
State of Ohio	4,548
<i>Total Intergovernmental Receivables</i>	<u><u>\$2,187,134</u></u>

**City of Garfield Heights, Ohio**  
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**Note 10 - Capital Assets**

Capital asset activity for the year ended December 31, 2012, was as follows:

	Balance 12/31/11	Additions	Deductions	Balance 12/31/12
<b>Governmental Activities</b>				
<i>Capital Assets, Not Being Depreciated</i>				
Land	\$1,573,091	\$93,965	(\$1,246)	\$1,665,810
<i>Capital Assets, Being Depreciated</i>				
Buildings	15,820,113	0	(228,599)	15,591,514
Improvements Other than Buildings	4,456,578	9,690	0	4,466,268
Vehicles	5,565,754	43,566	0	5,609,320
Machinery and Equipment	4,940,925	140,737	(37,191)	5,044,471
Furniture and Fixtures	690,274	950	0	691,224
Infrastructure				
Roads	25,057,567	1,945,000	0	27,002,567
Sanitary Sewers	4,013,655	186,400	0	4,200,055
Storm Sewers	1,661,471	239,000	0	1,900,471
Water Supply Lines	661,641	0	(661,641)	0
<i>Total Capital Assets, Being Depreciated</i>	<u>62,867,978</u>	<u>2,565,343</u>	<u>(927,431)</u>	<u>64,505,890</u>
<i>Less Accumulated Depreciation</i>				
Buildings	(6,302,562)	(321,684)	228,599	(6,395,647)
Improvements Other than Buildings	(2,421,794)	(112,249)	0	(2,534,043)
Vehicles	(3,709,816)	(321,658)	0	(4,031,474)
Machinery and Equipment	(4,052,509)	(177,415)	36,103	(4,193,821)
Furniture and Fixtures	(572,316)	(14,268)	0	(586,584)
Infrastructure				
Roads	(15,136,093)	(996,128)	0	(16,132,221)
Sanitary Sewers	(1,142,443)	(82,137)	0	(1,224,580)
Storm Sewers	(499,965)	(35,619)	0	(535,584)
Water Supply Lines	(187,530)	(6,616)	194,146	0
<i>Total Accumulated Depreciation</i>	<u>(34,025,028)</u>	<u>(2,067,774)</u>	<u>458,848</u>	<u>(35,633,954)</u>
<i>Total Capital Assets being Depreciated, Net</i>	<u>28,842,950</u>	<u>497,569</u>	<u>(468,583)</u>	<u>28,871,936</u>
<i>Capital Assets, Net</i>	<u>\$30,416,041</u>	<u>\$591,534</u>	<u>(\$469,829)</u>	<u>\$30,537,746</u>

Depreciation expense was charged to governmental functions as follows:

General Government	\$347,443
Security of Persons and Property	367,764
Public Health Services	36,931
Transportation	1,092,873
Basic Utility Services	143,946
Leisure Time Activities	78,817
Total Depreciation Expense	<u>\$2,067,774</u>

**City of Garfield Heights, Ohio**  
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**Note 11 – 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.

**Note 12 – Interfund Transfers and Balances**

*Interfund Transfers*

Transfer To	Transfer From		Totals
	General	Other Governmental Funds	
General	\$0	\$134,651	\$134,651
Bond Retirement	141,000	903,161	1,044,161
Other Governmental Funds	1,263,664	142,500	1,406,164
<b>Totals</b>	<b>\$1,404,664</b>	<b>\$1,180,312</b>	<b>\$2,584,976</b>

During 2012, the general fund transferred out \$1,263,664 to various other governmental funds. Of this total, \$632,398 was transferred to the police pension and \$627,341 to the fire pension special revenue funds, with the remaining \$3,925 to the community development special revenue fund. These two funds were set up as special revenue funds in past years in order to correctly identify a small percentage of the property tax revenues that were earmarked 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.

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The bond retirement debt service fund received transfers in of \$141,000 from the general fund, \$163,161 from the motor vehicle license tax special revenue fund, as well as \$460,000 from the storm and sanitary sewer and \$280,000 from the permanent improvement capital projects funds to support payments on long-term debt.

**Note 13 - 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 2012, the City contracted with Clarendon Insurance Company for various types of insurance as follows:

Type	Coverage	Per Occurrence
Property	\$31,749,785	
Inland Marine	2,427,182	
Comprehensive General Liability	6,000,000	\$8,000,000
Police Professional Liability	6,000,000	8,000,000
Employment Practices	6,000,000	6,000,000
Vehicle Liability	6,000,000	
Public Officials Liability	6,000,000	8,000,000

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 \$200 per person and \$400 per family, with maximum out of pocket expenses, not including the deductibles, of \$0 per individual or family coverage for network, and \$800 and \$1,200 per individual and family, respectively, for out of network. 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 \$160,000 per employee. 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 \$298,675 has been accrued in the general fund, 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, 2012 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 2012 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 2012. The minimum premium portion of intergovernmental payable is \$183,700 and the actual claim costs are \$76,286. The maintenance of these benefits is accounted for in the general fund. Claims of \$607,137 have been accrued as a liability at December 31, 2012 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 2011 and 2012 were:

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	Balance Beginning of Year	Current Year Claims	Claim Payments	Compensation Estimate	Balance at End of Year
2011	\$300,147	\$2,371,107	\$2,508,743	\$629,776	\$792,287
2012	792,287	2,262,526	2,832,906	385,230	607,137

**Note 14 - Long-Term Obligations**

Changes in long-term obligations of the City during the year ended December 31, 2012 were as follows:

	Outstanding 12/31/2011	Additions	Reductions	Outstanding 12/31/2012	Amounts Due in One Year
<b>Governmental Activities</b>					
<b>General Obligation Bonds</b>					
2002 1.09%-5.55% \$7,300,000					
Various Improvements	\$5,745,000	\$0	(\$5,745,000)	\$0	\$0
2004 4.75% \$9,900,000					
Various Improvements	7,962,000	0	(448,000)	7,514,000	471,000
2006 4.00% \$1,885,000					
Various Purpose Improvement Refunding Bonds	770,000	0	(245,000)	525,000	260,000
2006 4.00% \$2,307,466					
Various Purpose Refunding Bonds	1,240,829	0	(235,820)	1,005,009	243,076
2006 4.00% \$2,790,000					
Street Improvement	2,225,000	0	(165,000)	2,060,000	170,000
Unamortized Premium	94,193	0	(8,568)	85,625	0
2010 3.00% Various Improvement					
Serial Bonds	1,310,000	0	0	1,310,000	0
Term Bonds	8,520,000	0	(845,000)	7,675,000	865,000
Unamortized Premium	171,663	0	(10,092)	161,571	0
2012 3.00% \$5,775,000					
Various Purpose Improvement Refunding Bonds					
Serial Bonds	0	3,425,000	0	3,425,000	130,000
Term Bonds	0	2,350,000	0	2,350,000	0
Unamortized Discount	0	(21,373)	236	(21,137)	0
<b>Total General Obligation Bonds</b>	<b>28,038,685</b>	<b>5,753,627</b>	<b>(7,702,244)</b>	<b>26,090,068</b>	<b>2,139,076</b>
<b>Special Assessment Bonds</b>					
2006 4.00% \$325,000					
Various Purpose Improvement Refunding Bonds	140,000	0	(45,000)	95,000	45,000
2006 4.00% \$872,534					
Various Purpose Refunding Bonds	469,171	0	(89,180)	379,991	91,924
<b>Total Special Assessment Bonds</b>	<b>\$609,171</b>	<b>\$0</b>	<b>(\$134,180)</b>	<b>\$474,991</b>	<b>\$136,924</b>

(continued)

**City of Garfield Heights, Ohio**  
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	Outstanding 12/31/2011	Additions	Reductions	Outstanding 12/31/2012	Amounts Due in One Year
<b>Governmental Activities</b>					
<i>Other Governmental Activities</i>					
Compensated Absences Payable	\$4,260,307	\$261,741	(\$107,181)	\$4,414,867	\$107,181
Claims Payable	405,607	467,611	(266,081)	607,137	223,365
Police and Fire Pension Liability	591,576	0	(15,111)	576,465	15,760
<i>Total Other Governmental Activities</i>	<u>5,257,490</u>	<u>729,352</u>	<u>(388,373)</u>	<u>5,598,469</u>	<u>346,306</u>
<i>Total Governmental Activities</i>	<u>\$33,905,346</u>	<u>\$6,482,979</u>	<u>(\$8,224,797)</u>	<u>\$32,163,528</u>	<u>\$2,622,306</u>

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

On October 30, 2012, the City issued \$5,775,000 in general obligation bonds for the purpose of refunding general obligation issues in order to take advantage of lower interest rates. An analysis of the information follows:

	2004 Various Purpose
Outstanding at December 31, 2011	\$5,745,000
Amount Refunded	(5,505,000)
Principal Payment of Non-Refunded Portion	<u>(240,000)</u>
Outstanding at December 31, 2012	<u><u>\$0</u></u>

The bonds were sold at a discount of \$21,373. Proceeds of \$5,760,425 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, \$5,505,000 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 \$255,425, the City in effect decreased its aggregated debt service payments by \$513,645 over the next 15 years and obtained an economic gain (difference between the present values of the old and new debt service payments) of \$491,436.

The general obligation bonds consist of serial and term bonds in the amounts of \$3,425,000 and \$2,350,000, respectively. The bonds were issued for a fifteen year period with a final maturity on December 1, 2027.

The term bonds maturing on December 1, 2027 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:

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<u>Year</u>	<u>Amount</u>
2023	\$430,000
2024	450,000
2025	470,000
2026	490,000
2027	510,000
Total	<u><u>\$2,350,000</u></u>

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. 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.

The general obligation bonds consist of serial and term bonds in the amounts of \$1,310,000 and \$7,675,000, 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:

<u>Year</u>	<u>Amount</u>
2013	\$865,000
2014	895,000
2015	910,000
Total	<u><u>\$2,670,000</u></u>

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

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:

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<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 \$22,126,359 at December 31, 2012. Principal and interest requirements to retire long-term obligations outstanding at December 31, 2012 are as follows:

	<u>General Obligation Bonds</u>		<u>Special Assessment Bonds</u>		<u>Police and Fire Pension</u>	
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
2013	\$2,139,076	\$1,045,881	\$136,924	\$20,308	\$15,760	\$24,334
2014	2,307,588	951,073	147,412	14,675	16,437	23,657
2015	2,233,844	866,788	100,156	7,628	17,143	22,951
2016	2,290,501	785,550	90,499	3,622	17,880	22,215
2017	1,798,000	705,996	0	0	18,647	21,447
2018-2022	8,626,000	2,558,067	0	0	105,960	94,511
2023-2027	6,049,000	798,678	0	0	130,758	69,714
2028-2032	420,000	21,000	0	0	161,356	39,115
2033-2035	0	0	0	0	92,524	5,906
Totals	<u><u>\$25,864,009</u></u>	<u><u>\$7,733,033</u></u>	<u><u>\$474,991</u></u>	<u><u>\$46,233</u></u>	<u><u>\$576,465</u></u>	<u><u>\$323,850</u></u>

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**Note 15 – Short-Term Obligations**

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

	Balance 12/31/11	Additions	Reductions	Balance 12/31/12
2009 Local Government Borrowing	\$2,121,116	\$0	\$789,000	\$1,332,116
Unamortized Discount	(56,733)	0	(20,023)	(36,710)
<i>Total Short-Term Obligations</i>	<u>\$2,064,383</u>	<u>\$0</u>	<u>\$768,977</u>	<u>\$1,295,406</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, 2012 are as follows:

	Principal	Interest
2013	\$747,000	\$54,740
2014	585,116	24,300
Totals	<u>\$1,332,116</u>	<u>\$79,040</u>

**Note 16 - 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 2012. 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.

**City of Garfield Heights, Ohio**  
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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 2012, the City of Garfield Heights contributed \$4,000 to the First Suburbs Consortium. Financial information can be obtained by contacting First Suburbs Consortium of Northeast Ohio Council of Governments, 40 Severance Circle, Cleveland Heights, Ohio 44118.

## **Note 17 - 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 visiting <https://www.opers.org/investments/cafr.shtml>, writing to OPERS, 277 East Town Street, Columbus, OH 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. Member contribution rates, as set forth in the Ohio Revised Code, are not to exceed 10 percent of covered payroll for members in State and local divisions and 12 percent for law enforcement and public safety members. For the year ended December 31, 2012, members in state and local classifications contributed 10.0 percent of covered payroll.

The City's 2012 contribution rate was 14.0 percent. 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 4.00 percent for 2012. The portion of employer contributions allocated to health care for members in the Combined Plan was 6.05 percent for 2012. Employer contribution rates are actuarially determined.

The City's required contributions for pension obligations to the Traditional Pension and Combined Plans for the years ended December 31, 2012, 2011, and 2010 were \$513,201, \$486,49, and \$883,464, respectively. For 2012, 91.90 percent has been contributed with the balance being reported as an intergovernmental payable. The full amount has been contributed for 2011 and 2010. Contributions to the Member-Directed Plan for 2012 were \$9,753 made by the City and \$6,996 made by the plan members.

**City of Garfield Heights, Ohio**  
*Notes to the Basic Financial Statements*  
*For the Year Ended December 31, 2012*

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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 publically 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 \$510,700 and \$537,248 for the year ended December 31, 2012, \$496,427 and \$532,790 for the year ended December 31, 2011, and \$552,292 and \$549,876 for the year ended December 31, 2010, respectively. For 2012, 74.84 percent for police and 72.84 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 2011 and 2010.

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, 2012, the liability of the City was \$576,465 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 position.

**Note 18 - 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*  
*For the Year Ended December 31, 2012*

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Disclosures for the health care plan are presented separately in the OPERS financial report which may be obtained by visiting <https://www.opers.org/investments/cafr.shtml>, 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). The Ohio Revised Code provides the statutory authority requiring public employers fund post-employment health care through their contributions to OPERS. A portion of each employer’s contribution to the traditional or combined plans is set aside for the funding of post-employment health care.

Employer contribution rates are expressed as a percentage of the covered payroll of active members. In 2012, state and local government employers contributed at a rate of 14.0 percent of covered payroll. These are the maximum employer contribution rates permitted by the Ohio Revised Code.

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 4.0 percent for the year ended December 31, 2012. The portion of employer contributions allocated to health care for members in the Combined Plan was 6.05 percent for the year ended December 31, 2012. Effective January 1, 2013, the portion of employer contributions allocated to healthcare was lowered to 1 percent for both plans, as recommended by the OPERS Actuary.

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, 2012, 2011, 2010 were \$205,281, \$194,596, and \$510,169, respectively. For 2012, 91.90 percent has been contributed with the balance being reported as an intergovernmental payable. The full amount has been contributed for 2011 and 2010.

Changes to health care plan were adopted by the OPERS Board of Trustees on September 19, 2012, with a transition plan commencing January 1, 2014. With the recent passage of pension legislation under SB 343 and the approval health care changes, OPERS expects to consistently allocate four percent of the employer contributions toward the health care fund after the end of the transition period.

***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*  
*For the Year Ended December 31, 2012*

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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. That report is also available of OP&F's website at [www.op-f.org](http://www.op-f.org).

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 administered 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 Section 115 trust and the Section 401(h) account as the employer contribution for retiree health care benefits. For the year ended December 31, 2012, 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 Section 115 and 401(h).

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 \$270,371 and \$210,227 for the year ended December 31, 2012, \$262,814 and \$208,483 for the year ended December 31, 2011, and \$292,390 and \$215,169 for the year ended December 31, 2010, respectively. For 2012, 74.84 percent has been contributed for police and 72.84 percent has been contributed for firefighters with the balance for both police and firefighters being reported as an intergovernmental payable. The full amount has been contributed for 2011 and 2010.

### **Note 19 – 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*  
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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 through 2012, the City has taken steps to regain financial stability. The City has generated additional revenues through a full year's collection of their garbage collection fees and delinquent income tax payments from vendors. The City has requested to be terminated from fiscal emergency.

**City of Garfield Heights, Ohio**  
*Management's Discussion and Analysis*  
*For the Year Ended December 31, 2011*  
*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, 2011. 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 May 2009 the State Financial Oversight Commission approved the City's plan of action.
- In the summer of 2011, the State Legislature approved the States biennial budget for fiscal years 2012 and 2013. The State of Ohio operates on a fiscal year which runs from July 1 through June 30. The State approved revenue cuts to local governments, as proposed by the Governor, have added an additional burden to many local governments. Given the situation the City of Garfield Heights was in at the time of its passage, this new State Budget Bill added just another obstacle to be overcome. The State Auditor's Office, during the summer of 2011, projected that just the loss of the State shared Local Government Funds would amount to \$756,656 dollars in years 2011 and 2012, and projected the loss in the years 2013 through 2015 at over \$1.5 million in State shared funds. The loss of these State shared funding sources could push the City's projected recovery out beyond 2015.
- During 2011, the City continued to reduce the timing of accounts payable payments from 60 days at the beginning of the year to between 30 and 45 days by the end of the first quarter and has maintained that timing. This was due in large part to the savings that were realized through the implementation of the City's Financial Recovery Plan.
- During 2011, the City's Finance Department purchased (through a private grant), configured, and implemented a new financial software system with all new personal computers and servers. Budgetary and accounts payable were converted in June 2011 to the new system and payroll was converted in September 2011. With the new equipment and software programs, the City now accounts for all encumbrances on a daily basis through the use of the included purchase order module. The implementation of this new financial hardware and software is projected to save the City an additional \$30,000 to \$40,000 annually.

### **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*  
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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 2011?" 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 9. 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 and the bond retirement debt service 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, 2011*  
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**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 2011 compared to 2010.

(Table 1)  
Net Assets

	Governmental Activities		
	2011	2010 (Restated)	Change
<b>Assets</b>			
Current and Other Assets	\$25,306,469	\$22,028,876	\$3,277,593
Capital Assets, Net	30,416,041	31,814,519	(1,398,478)
<i>Total Assets</i>	55,722,510	53,843,395	1,879,115
<b>Liabilities</b>			
Current and Other Liabilities	14,985,341	16,238,349	(1,253,008)
Long-Term Liabilities:			
Due Within One Year	3,398,356	2,700,310	698,046
Due in More than One Year	30,461,967	33,318,086	(2,856,119)
<i>Total Liabilities</i>	48,845,664	52,256,745	(3,411,081)
<b>Net Assets</b>			
Invested in Capital Assets, Net of Related Debt	10,363,567	10,014,801	348,766
Restricted:			
Capital Projects	783,410	743,672	39,738
Debt Service	1,868,849	1,580,248	288,601
Street Lighting	368,738	243,072	125,666
Courts	481,255	143,259	337,996
Other Purposes	922,999	547,114	375,885
Unrestricted (Deficit)	(7,911,972)	(11,685,516)	3,773,544
<i>Total Net Assets</i>	\$6,876,846	\$1,586,650	\$5,290,196

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 2011 and 2010.

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

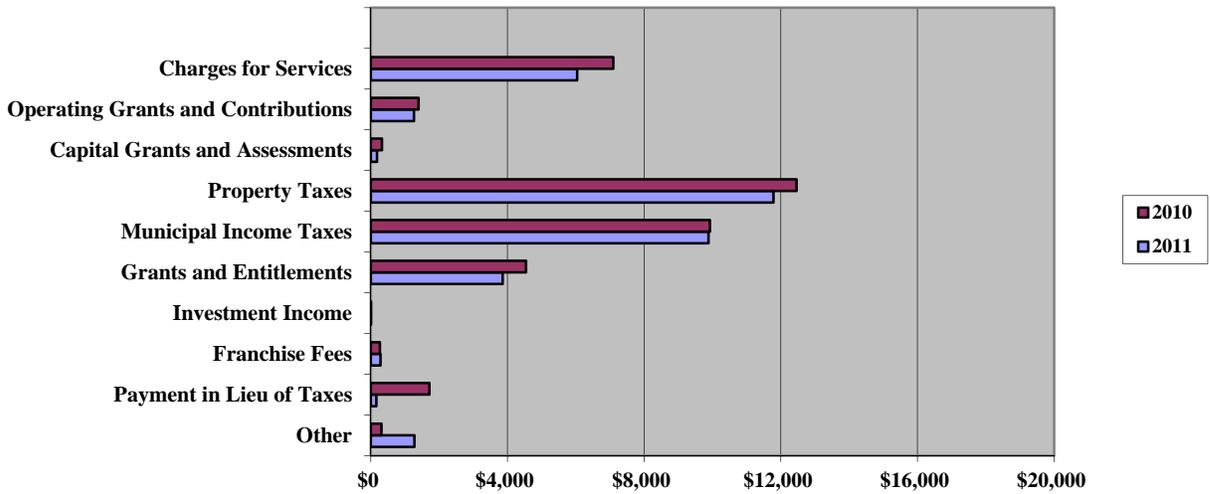
	Governmental Activities		
	2011	2010 (Restated)	Change
<b>Revenues</b>			
<b><i>Program Revenues</i></b>			
Charges for Services	\$6,038,628	\$7,099,360	(\$1,060,732)
Operating Grants	1,265,561	1,399,940	(134,379)
Capital Grants and Assessments	185,155	326,629	(141,474)
<i>Total Program Revenues</i>	<u>7,489,344</u>	<u>8,825,929</u>	<u>(1,336,585)</u>
<b><i>General Revenues</i></b>			
Property Taxes	11,785,804	12,459,060	(673,256)
Municipal Income Taxes	9,883,248	9,924,768	(41,520)
Grants and Entitlements not Restricted to Specific Programs	3,860,491	4,543,517	(683,026)
Payments in Lieu of Taxes	162,130	1,718,234	(1,556,104)
Interest	4,684	1,985	2,699
Franchise Fees	283,779	264,692	19,087
Other	1,276,320	313,529	962,791
<i>Total General Revenues</i>	<u>27,256,456</u>	<u>29,225,785</u>	<u>(1,969,329)</u>
<i>Total Revenues</i>	<u>34,745,800</u>	<u>38,051,714</u>	<u>(3,305,914)</u>
<b><i>Program Expenses</i></b>			
General Government	8,830,717	9,246,368	(415,651)
Security of Persons and Property	12,618,540	12,978,632	(360,092)
Public Health Services	561,509	755,328	(193,819)
Transportation	2,688,423	6,144,654	(3,456,231)
Community Development	172,313	133,764	38,549
Basic Utility Services	2,179,594	2,615,395	(435,801)
Leisure Time Activities	898,562	1,467,425	(568,863)
Interest and Fiscal Charges	1,505,946	1,167,554	338,392
<i>Total Program Expenses</i>	<u>29,455,604</u>	<u>34,509,120</u>	<u>(5,053,516)</u>
<i>Change in Net Assets</i>	5,290,196	3,542,594	1,747,602
Net Assets Beginning of Year	1,586,650	(1,955,944)	3,542,594
<i>Net Assets End of Year</i>	<u>\$6,876,846</u>	<u>\$1,586,650</u>	<u>\$5,290,196</u>

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

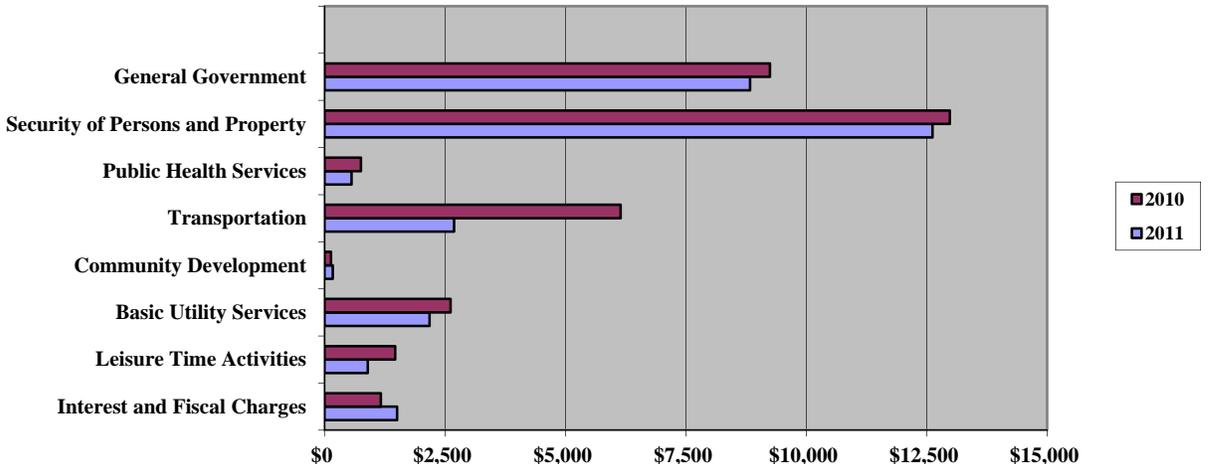
Several revenue sources fund our governmental activities, with property taxes being the largest. Property taxes decreased due to an increase in the delinquency rate for properties due to the general economic downturn being experienced in this area. Municipal income taxes are the second largest source of revenue. Municipal income taxes decreased slightly in 2011. 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. Most of the other revenue sources, such as charges for services, operating grants, and grants and entitlements, also experienced declines from the 2010 collection levels, however the City countered this decline by also showing a decline in almost all expenditure categories.

**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 2010, as is shown in the chart below.

**Governmental Expenses (In Thousands)**



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Analysis of the revenue and expense charts above will indicate that overall revenues were down from 2010 by \$3,305,914, while overall expenditures were reduced by \$5,053,516, which resulted in an increase in Net Assets of \$1,747,602.

**The City's Funds**

Information about the City's major governmental funds begins on page 16. 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 \$31,971,620 and total expenditures of \$30,183,106. The net effect for all governmental funds was a deficit fund balance of \$2,964,005. This deficit fund balance represents an decrease of the deficit fund balance that the City had at the end of 2010, and this is due to the City making an effort to cut costs and increase and/or maintain 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 slowdown, 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 \$4,095,171 at year end, a decrease of the deficit fund balance of \$5,208,948 in 2010. The decrease was due to overall decreases 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.

During the course of 2011, 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. In 2011 the City amended the form of its budgetary ordinances. In past years the City would budget to the individual line item thus not allowing for the Finance Director or the Departmental Director to make minor budget adjustments throughout the year. For the 2011 budgetary process the City's budgetary ordinance, and all amendments thereto, were compile only to the object level, thus allowing the for minor changes to be made within the object level grouping without the necessity of a formal ordinance to approve the change. 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 \$22,307,873 and actual revenue collections were \$22,357,729. The major factors contributing to the increase of actual revenues over the budgeted amounts were increases in fees licenses and permits and intergovernmental offset by decreases to municipal income taxes and charges for services revenues. The increases can all be attributed to legislative increases for local business regulation and increased intergovernmental revenues. The City of Garfield Heights' ending balance in the general fund was \$119,808 above the final budgeted amount, thus resulting in a deficit fund balance of \$1,335,569. 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**  
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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		
	2011	2010	Change
Land	\$1,573,091	\$1,573,091	\$0
Buildings and Improvements	11,552,335	11,995,375	(443,040)
Vehicles	1,855,938	2,206,496	(350,558)
Machinery and Equipment	888,416	975,144	(86,728)
Furniture and Fixtures	117,958	126,108	(8,150)
Infrastructure	14,428,303	14,938,305	(510,002)
Total	\$30,416,041	\$31,814,519	(\$1,398,478)

Total capital assets for the City of Garfield Heights as of December 31, 2011 decreased from 2010. There were additions to vehicles, machinery and equipment and furniture and fixtures which were far exceeded by current year depreciation which accounted for the decrease. Construction in Progress has not changed. This is a result of engineering design and preliminary work for the Broadway Avenue Rehabilitation Project prior to actual construction. The project stalled and has not been able to continue because of the financial position of the City. See Note 10 for additional information on the City's capital assets.

***Long Term Debt***

The City's overall legal debt margin at December 31, 2011 was \$20,217,539. Table 4 indicates the total outstanding long-term debt of the City.

Table 4  
 Long-Term Debt at Year End

	Governmental Activities		
	2011	2010	Change
General Obligation Bonds	\$27,993,662	\$30,083,746	(\$2,090,084)
Special Assessment Bonds	609,171	735,607	(126,436)
Police and Fire Liability	591,576	606,065	(14,489)
Total	\$29,194,409	\$31,425,418	(\$2,231,009)

During 2011, the City continued to pay down their debt. 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.

**City of Garfield Heights, Ohio**  
*Management's Discussion and Analysis*  
*For the Year Ended December 31, 2011*  
*Unaudited*

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The police and fire loan shown in Table 4 above, in the amount of \$591,576 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 15 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. This trend continued through 2010, however during late 2010 and 2011 the City has been informed of many upcoming construction projects that will have a positive impact on our future.

The first of these is that OverDrive, Inc. has chosen the City of Garfield Heights as the site in which it is building their new world headquarters. Overdrive, Inc. is a computer software corporation that manufactures the software utilized in the Kindle, and other e-book type units, and is used by many library systems both nationally and internationally. OverDrive, Inc. successfully negotiated the purchase of an old, dilapidated warehouse at the top of Granger Road hill in Garfield Heights, demolished the existing structure, and in the fall of 2011 began the construction of their new world headquarters. The new structure is projected for completion in September 2012, at which time the company will begin moving their current staff of around 160 employees into the facility. All employees are projected to be in their new facility by the end of 2012, with projected annual increases in employment throughout the next 3 to 5 years.

The second major construction project progressing in the City is that of a new branch of the Cuyahoga County Library system. The system has had a branch library in Garfield heights since the middle 1960's, which occupied a City owned structure that was built then for the branch library under a long term government lease agreement. In order for the new construction to progress, the City had to transfer ownership of the building and land to the library system. The construction plan is for the demolition of the old existing structure to begin in the early spring of 2012 and the construction of the new \$11 million facility thereafter. The construction is estimated to take about one year, with the library system moving into the new facility in late spring or early summer of 2013.

Throughout 2010 and 2011, Marymount Hospital, the City's largest employer, has been under construction of a new surgical wing and the renovation of the old surgery facility into a recovery center. This construction and renovation project is estimated at a total cost of \$45 million, and follows a \$40 million plus hospital renovation that was completed just 5 to 6 years prior. The new surgical center opened in March of 2012, with the renovation portion of the project began thereafter.

As is the case with many governmental agencies, dated infrastructure can be a problem. However, over the past 20 years, the City had taken a proactive stance in regards to dated infrastructure and plans to continue this effort of improving infrastructure as the need arises. At the beginning of the City's financial troubles, dating to 2008, the City's infrastructure improvements were put on temporary hold. During 2011, the City was informed as to major roadway improvements that will be taking place within the City. Through cooperation agreements with Cuyahoga County, the State Department of Transportation, the Ohio Public Works Commission, and neighboring communities, various roadway projects are now slated for construction. These include the reconstruction of McCracken Road (2012), the resurfacing of Turney Road (2014), Granger Road (2013) and Rockside Road (2013). Additionally, through the use of storm and sanitary sewer funds and cooperation agreements with the Cuyahoga County Department of Public Works, many sewer

**City of Garfield Heights, Ohio**  
*Management's Discussion and Analysis*  
*For the Year Ended December 31, 2011*  
*Unaudited*

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system problem areas have been or will in the near future be remedied. These include a Catch Basin Repair Project (2011-2012), the North Granger Sewer Replacement Project (2011-2012), the Thraves/Grannis Sewer Project (2011-2012), the Rosewood/Bancroft Sewer Project (2012-2013), the west End of Grand Division Storm Sewer Project (2012-2013), and the Wallingford/East 112<sup>th</sup> Street Sanitary Sewer Project (2012-2013).

During 2011, the State of Ohio EPA lifted its ban on the continued construction of Transportation Blvd. through to Rockside Road. This project began in the early 2000's and is a brown-field reclamation project. It will involve the construction of a roadway and future development, on private land, over a closed landfill. The State EPA halted the project around 2007 when complications arose with the then newly constructed City View retail shopping center. In the summer of 2011, the State of Ohio EPA issued a permit to the landowner for the continuation of the construction of the roadway on through to Rockside Road. The landowner has a 3 year period in which to construct this roadway. Projections are for the project to begin in 2012 with the accumulation of capping material with projected roadway construction to begin in 2013.

**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.

# City of Garfield Heights, Ohio

## Statement of Net Assets

December 31, 2011

	<u>Governmental Activities</u>
<b>Assets</b>	
Equity in Pooled Cash and Cash Equivalents	\$1,218,265
Cash and Cash Equivalents With Fiscal Agents	183
Accounts Receivable	2,780,261
Intergovernmental Receivable	2,680,711
Prepaid Items	32,740
Materials and Supplies Inventory	109,160
Municipal Income Taxes Receivable	2,926,836
Property Taxes Receivable	14,193,645
Special Assessments Receivable	609,171
Payments in Lieu of Taxes Receivable	158,490
Deferred Charges	597,007
Nondepreciable Capital Assets	1,573,091
Depreciable Capital Assets, Net	<u>28,842,950</u>
<i>Total Assets</i>	<u>55,722,510</u>
<b>Liabilities</b>	
Accounts Payable	98,541
Contracts Payable	470,475
Accrued Wages	285,094
Intergovernmental Payable	1,059,208
Early Retirement Incentive Payable	1,045,724
Deferred Revenue	9,477,587
Accrued Interest Payable	97,649
Notes Payable	2,064,383
Claims Payable	386,680
Long-Term Liabilities:	
Due Within One Year	3,398,356
Due In More Than One Year	<u>30,461,967</u>
<i>Total Liabilities</i>	<u>48,845,664</u>
<b>Net Assets</b>	
Invested in Capital Assets, Net of Related Debt	10,363,567
Restricted for:	
Capital Projects	783,410
Debt Service	1,868,849
Street Lighting	368,738
Courts	481,255
Other Purposes	922,999
Unrestricted (Deficit)	<u>(7,911,972)</u>
<i>Total Net Assets</i>	<u>\$6,876,846</u>

The accompanying notes are an integral part of these financial statements

**City of Garfield Heights, Ohio**  
*Statement of Activities*  
For the Year Ended December 31, 2011

	Expenses	Program Revenues			Net (Expense)
		Charges for Services	Operating Grants	Capital Grants and Assessments	Revenue and Changes in Net Assets
					Governmental Activities
<b>Governmental Activities:</b>					
General Government	\$8,830,717	\$2,540,181	\$0	\$185,155	(\$6,105,381)
Security of Persons and Property	12,618,540	2,495,999	36,918	0	(10,085,623)
Public Health Services	561,509	43,831	0	0	(517,678)
Transportation	2,688,423	202,529	1,138,037	0	(1,347,857)
Community Development	172,313	39,585	0	0	(132,728)
Basic Utility Services	2,179,594	415,803	90,606	0	(1,673,185)
Leisure Time Activities	898,562	300,700	0	0	(597,862)
Interest and Fiscal Charges	1,505,946	0	0	0	(1,505,946)
<b>Totals</b>	<b>\$29,455,604</b>	<b>\$6,038,628</b>	<b>\$1,265,561</b>	<b>\$185,155</b>	<b>(21,966,260)</b>

**General Revenues**

Property Taxes Levied for:

General Purposes	8,730,652
Street Lighting	549,832
Police Pension	143,435
Fire Pension	143,435
Debt Service	1,740,337
Capital Outlay	478,113

Municipal Income Tax Levied for:

General Purposes	7,999,607
Street Construction, Maintenance and Repair	591,005
Debt Service	689,506
Capital Outlay	603,130

Grants and Entitlements not

Restricted to Specific Programs	3,860,491
Payments in Lieu of Taxes	162,130
Interest	4,684
Franchise Fees	283,779
Other	1,276,320

*Total General Revenues* 27,256,456

Change in Net Assets 5,290,196

*Net Assets Beginning of Year*  
*(Restated - See Note 3)* 1,586,650

*Net Assets End of Year* \$6,876,846

The accompanying notes are an integral part of these financial statements

**City of Garfield Heights, Ohio**

*Balance Sheet*

*Governmental Funds*

*December 31, 2011*

	General	Bond Retirement	Other Governmental Funds	Total Governmental Funds
<b>Assets</b>				
Equity in Pooled Cash and Cash Equivalents	\$0	\$185,055	\$1,033,210	\$1,218,265
Cash and Cash Equivalents with Fiscal Agents	0	0	183	183
Accounts Receivable	2,673,849	0	106,412	2,780,261
Intergovernmental Receivable	1,903,605	112,508	664,598	2,680,711
Prepaid Items	31,601	0	1,139	32,740
Materials and Supplies Inventory	41,900	0	67,260	109,160
Interfund Receivable	0	0	1,153,419	1,153,419
Payments in Lieu of Taxes Receivable	0	0	158,490	158,490
Municipal Income Taxes Receivable	2,370,737	204,879	351,220	2,926,836
Property Taxes Receivable	10,461,240	2,126,126	1,606,279	14,193,645
Special Assessments Receivable	0	609,171	0	609,171
<i>Total Assets</i>	<u>\$17,482,932</u>	<u>\$3,237,739</u>	<u>\$5,142,210</u>	<u>\$25,862,881</u>
<b>Liabilities</b>				
Accounts Payable	\$47,968	\$0	\$50,573	\$98,541
Contracts Payable	271,457	0	199,018	470,475
Accrued Wages	249,092	0	36,002	285,094
Intergovernmental Payable	572,675	0	486,533	1,059,208
Early Retirement Incentive Payable	808,240	0	237,484	1,045,724
Interfund Payable	1,153,419	0	0	1,153,419
Deferred Revenue	16,048,572	3,003,289	3,194,659	22,246,520
Accrued Interest Payable	16,842	0	0	16,842
Notes Payable	2,064,383	0	0	2,064,383
Claims Payable	345,455	0	41,225	386,680
<i>Total Liabilities</i>	<u>21,578,103</u>	<u>3,003,289</u>	<u>4,245,494</u>	<u>28,826,886</u>
<b>Fund Balances</b>				
Nonspendable	157,926	0	68,399	226,325
Restricted	0	234,450	1,595,969	1,830,419
Unassigned (Deficit)	(4,253,097)	0	(767,652)	(5,020,749)
<i>Total Fund Balances (Deficit)</i>	<u>(4,095,171)</u>	<u>234,450</u>	<u>896,716</u>	<u>(2,964,005)</u>
<i>Total Liabilities and Fund Balances</i>	<u>\$17,482,932</u>	<u>\$3,237,739</u>	<u>\$5,142,210</u>	<u>\$25,862,881</u>

The accompanying notes are an integral part of these financial statements

**City of Garfield Heights, Ohio**  
*Reconciliation of Total Governmental Fund Balances to  
 Net Assets of Governmental Activities  
 December 31, 2011*

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**Total Governmental Fund Balances** (\$2,964,005)

*Amounts reported for governmental activities in the  
 statement of net assets are different because*

Capital assets used in governmental activities are not financial  
 resources and therefore are not reported in the funds. 30,416,041

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

Property Taxes	\$6,203,394
Municipal Income Taxes	2,233,322
Intergovernmental	1,949,919
Charges for Services	1,773,127
Special Assessments	<u>609,171</u>

Total 12,768,933

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. 597,007

In the statement of activities, interest is accrued on outstanding  
 bonds, whereas in governmental funds, an interest  
 expenditure is reported when due. (80,807)

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

General Obligation Bonds	(27,993,662)
Special Assessment Bonds	(609,171)
Compensated Absences	(4,260,307)
Claims Payable	(405,607)
Police and Fire Liability	<u>(591,576)</u>

Total (33,860,323)

*Net Assets of Governmental Activities* \$6,876,846

The accompanying notes are an integral part of these financial statements

**City of Garfield Heights, Ohio**  
*Statement of Revenues, Expenditures and Changes in Fund Balances*  
*Governmental Funds*  
*For the Year Ended December 31, 2011*

	General	Bond Retirement	Other Governmental Funds	Total Governmental Funds
<b>Revenues</b>				
Property Taxes	\$6,800,283	\$1,336,399	\$1,009,642	\$9,146,324
Municipal Income Taxes	7,697,011	663,356	1,137,180	9,497,547
Special Assessments	0	250,060	0	250,060
Charges for Services	3,481,525	0	202,403	3,683,928
Fees, Licenses and Permits	358,098	0	126	358,224
Fines and Forfeitures	883,805	0	959,032	1,842,837
Intergovernmental	3,052,967	1,091,717	1,321,103	5,465,787
Interest	3,309	1,375	0	4,684
Franchise Fees	283,779	0	0	283,779
Payments in Lieu of Taxes	0	0	162,130	162,130
Other	910,312	6,249	359,759	1,276,320
<i>Total Revenues</i>	<u>23,471,089</u>	<u>3,349,156</u>	<u>5,151,375</u>	<u>31,971,620</u>
<b>Expenditures</b>				
Current:				
General Government	6,777,447	786,866	404,821	7,969,134
Security of Persons and Property	10,927,512	0	1,566,689	12,494,201
Public Health Services	476,202	0	0	476,202
Transportation	0	0	1,561,651	1,561,651
Community Development	176,065	0	0	176,065
Basic Utility Services	1,811,609	0	494,926	2,306,535
Leisure Time Activities	800,839	0	0	800,839
Capital Outlay	0	0	693,617	693,617
Debt Service:				
Principal Retirement	0	2,202,000	14,489	2,216,489
Interest and Fiscal Charges	12,411	1,450,356	25,606	1,488,373
<i>Total Expenditures</i>	<u>20,982,085</u>	<u>4,439,222</u>	<u>4,761,799</u>	<u>30,183,106</u>
<i>Excess of Revenues Over (Under) Expenditures</i>	<u>2,489,004</u>	<u>(1,090,066)</u>	<u>389,576</u>	<u>1,788,514</u>
<b>Other Financing Sources (Uses)</b>				
Transfers In	0	1,058,173	1,295,227	2,353,400
Transfers Out	(1,375,227)	0	(978,173)	(2,353,400)
<i>Total Other Financing Sources (Uses)</i>	<u>(1,375,227)</u>	<u>1,058,173</u>	<u>317,054</u>	<u>0</u>
<i>Net Change in Fund Balances</i>	1,113,777	(31,893)	706,630	1,788,514
<i>Fund Balances (Deficit) Beginning of Year (Restated - See Note 3)</i>	<u>(5,208,948)</u>	<u>266,343</u>	<u>190,086</u>	<u>(4,752,519)</u>
<i>Fund Balances (Deficit) End of Year</i>	<u>(\$4,095,171)</u>	<u>\$234,450</u>	<u>\$896,716</u>	<u>(\$2,964,005)</u>

The accompanying notes are an integral part of these 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, 2011*

**Net Change in Fund Balances - Total Governmental Funds** \$1,788,514

*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	\$716,494	
Depreciation	(2,084,086)	
Total		(1,367,592)

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. (30,886)

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

Property Taxes	2,639,480	
Municipal Income Taxes	385,701	
Intergovernmental	(278,204)	
Charges for Services	153,639	
Special Assessments	(126,436)	
Total		2,774,180

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. 2,216,489

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	9,526	
Amortization of Bond Issuance Costs	(41,619)	
Amortization of Loss on Refunding	(4,140)	
Amortization of Bond Premium	18,660	
Total		(17,573)

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	327,227	
Claims	(400,163)	
Total		(72,936)

*Change in Net Assets of Governmental Activities* \$5,290,196

The accompanying notes are an integral part of these 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, 2011*

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
<b>Revenues</b>				
Property Taxes	\$6,745,176	\$6,745,176	\$6,745,212	\$36
Municipal Income Taxes	7,013,706	7,013,706	6,993,907	(19,799)
Charges for Services	3,598,236	3,598,236	3,597,214	(1,022)
Fees, Licenses and Permits	333,574	333,574	349,240	15,666
Fines and Forfeitures	845,500	845,500	846,153	653
Intergovernmental	2,840,140	2,840,140	2,881,221	41,081
Interest	3,105	3,105	3,309	204
Franchise Fees	283,778	283,778	283,779	1
Other	644,658	644,658	657,694	13,036
<i>Total Revenues</i>	<u>22,307,873</u>	<u>22,307,873</u>	<u>22,357,729</u>	<u>49,856</u>
<b>Expenditures</b>				
Current:				
General Government	7,562,947	7,365,288	7,334,003	31,285
Security of Persons and Property	10,497,370	11,032,499	11,022,296	10,203
Public Health Services	189,902	189,418	189,189	229
Community Development	156,430	163,956	163,204	752
Basic Utility Services	1,710,582	1,847,470	1,847,467	3
<i>Total Expenditures</i>	<u>20,117,231</u>	<u>20,598,631</u>	<u>20,556,159</u>	<u>42,472</u>
<i>Excess of Revenues Over Expenditures</i>	2,190,642	1,709,242	1,801,570	92,328
<b>Other Financing Uses</b>				
Transfers Out	(1,832,970)	(1,402,707)	(1,375,227)	27,480
<i>Net Change in Fund Balance</i>	357,672	306,535	426,343	119,808
<i>Fund Deficit Beginning of Year</i>	(2,125,045)	(2,125,045)	(2,125,045)	0
Prior Year Encumbrances Appropriated	363,133	363,133	363,133	0
<i>Fund Deficit End of Year</i>	<u>(\$1,404,240)</u>	<u>(\$1,455,377)</u>	<u>(\$1,335,569)</u>	<u>\$119,808</u>

The accompanying notes are an integral part of these financial statements

**City of Garfield Heights, Ohio**  
*Statement of Fiduciary Assets and Liabilities*  
*Agency Funds*  
*December 31, 2011*

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	<u>Agency</u>
<b>Assets</b>	
Cash and Cash Equivalents in Segregated Accounts	<u>\$852,033</u>
<b>Liabilities</b>	
Intergovernmental Payable	\$656,866
Due to Others	<u>195,167</u>
<i>Total Liabilities</i>	<u>\$852,033</u>

The accompanying notes are an integral part of these financial statements

**City of Garfield Heights, Ohio**  
*Notes to the Basic Financial Statements*  
*For the Year Ended December 31, 2011*

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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 seven Council members elect one of their own to act as the President of Council and the President Pro-Tem. 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 19 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 these organizations is presented in Note 16 to the basic financial statements.

**City of Garfield Heights, Ohio**  
*Notes to the Basic Financial Statements*  
*For the Year Ended December 31, 2011*

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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, 2011*

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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 and reports all financial resources except those required to be accounted for and reported 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** This fund is used to account for and report the accumulation of restricted debt proceeds, and the payment of, general long-term and special assessment principal, interest and related costs.

The other governmental funds of the City account for grants and other resources whose use is restricted, committed or assigned 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 Cleveland 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, 2011*

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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.

Non-exchange transactions, in which the City receives value without directly giving equal value in return, include income taxes, property taxes, grants, entitlements and donations. On an accrual basis, revenue from income taxes is recognized in the year in which the income is earned. Revenue from property taxes is recognized in the year for which the taxes are levied (See Note 9). 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 non-exchange transactions must also be available before it can be recognized.

Under the modified accrual basis, the following revenue sources are considered to be both measurable and available at year-end: income 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, 2011, but which were levied to finance year 2012 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, 2011*

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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 had an interfund payable for the amount of the advance received for the negative cash balance at year end and the special revenue and capital projects funds have an interfund receivable for the amount advanced to the general fund.

Investment procedures are restricted by the provisions of the Ohio Revised Code. Interest revenue credited to the general fund during 2011 amounted to \$3,309, 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, 2011*

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***Prepaid Items***

Payments made to vendors for services that will benefit periods beyond December 31, 2011 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, 2011*

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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.

***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 and compensated absences 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***

Fund balance is divided into five classifications based primarily on the extent to which the City is bound to observe constraints imposed upon the use of the resources in the governmental funds. The classifications are as follows:

***Nonspendable*** The nonspendable fund balance category includes amounts that cannot be spent because they are not in spendable form, or legally or contractually required to be maintained intact. The "not in spendable form" criterion includes items that are not expected to be converted to cash.

***Restricted*** Fund balance is reported as restricted when constraints placed on the use of resources are either externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments or is imposed by law through constitutional provisions or enabling legislation (City ordinances).

Enabling legislation authorizes the City to assess, levy, charge, or otherwise mandate payment of resources (from external resource providers) and includes a legally enforceable requirement that those resources be used only for the specific purposes stipulated in the legislation. Legal enforceability means that the City can be compelled by an external party-such as citizens, public interest groups, or the judiciary to use resources created by enabling legislation only for the purposes specified by the legislation.

***Committed*** The committed fund balance classification includes amounts that can be used only for the specific purposes imposed by a formal action (ordinance or resolution) of City Council. Those committed amounts cannot be used for any other purpose unless the City Council removes or changes the specified use by taking the same type of action (ordinance or resolution) it employed to previously commit those amounts. In contrast to fund balance that is restricted by enabling legislation, committed fund balance classification may be redeployed for other purposes with appropriate due process. Constraints imposed on the use of committed amounts are imposed by City Council, separate from the authorization to raise the underlying revenue; therefore, compliance with these constraints are not considered to be legally enforceable. Committed fund balance also incorporates contractual obligations to the extent that existing resources in the fund have been specifically committed for use in satisfying those contractual requirements.

**City of Garfield Heights, Ohio**  
*Notes to the Basic Financial Statements*  
*For the Year Ended December 31, 2011*

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**Assigned** Amounts in the assigned fund balance classification are intended to be used by the City for specific purposes but do not meet the criteria to be classified as restricted or committed. In governmental funds other than the general fund, assigned fund balance represents the remaining amount that is not restricted or committed. In the general fund, assigned amounts represent intended uses established by policies of the City Council or a City official delegated that authority by City Charter or ordinance, or by State Statute.

**Unassigned** Unassigned fund balance is the residual classification for the general fund and includes all spendable amounts not contained in the other classifications. In other governmental funds, the unassigned classification is used only to report a deficit balance.

The City applies restricted resources first when expenditures are incurred for purposes for which either restricted or unrestricted (committed, assigned, and unassigned) amounts are available. Similarly, within unrestricted fund balance, committed amounts are reduced first followed by assigned, and then unassigned amounts when expenditures are incurred for purposes for which amounts in any of the unrestricted fund balance classifications could be used.

***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 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.

**City of Garfield Heights, Ohio**  
*Notes to the Basic Financial Statements*  
*For the Year Ended December 31, 2011*

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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 and Restatement of Prior Year Fund Balances/Net Assets**

For 2011, the City has implemented Governmental Accounting Standard Board (GASB) Statement No. 54, “Fund Balance Reporting and Governmental Fund Type Definitions” and Statement No. 59, “Financial Instruments Omnibus”.

GASB Statement No. 54 enhances the usefulness of fund balance information by providing clearer fund balance classifications that can be more consistently applied and by clarifying the existing governmental fund type definitions. This statement establishes fund balance classifications that comprise a hierarchy based primarily on the extent to which a government is bound to observe constraints imposed upon the use of the resources reported in governmental funds. The implementation of GASB Statement No. 54 had the following effect on fund balances of the major funds and all other governmental funds as previously reported.

**City of Garfield Heights, Ohio**  
*Notes to the Basic Financial Statements*  
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	General	Bond Retirement	Other Governmental Funds	Total Governmental Funds
Fund Balance at December 31, 2010	(\$5,101,803)	\$266,343	\$82,941	(\$4,752,519)
GASB 54 Change in Fund Structure	(107,145)	0	107,145	0
Adjusted Fund Balance at December 31, 2010	<u>(\$5,208,948)</u>	<u>\$266,343</u>	<u>\$190,086</u>	<u>(\$4,752,519)</u>

GASB Statement No. 59 addresses significant practice issues that have arisen when accounting for financial instruments by updating and improving existing standards regarding financial reporting of certain financial instruments and external investment pools. The implementation of this statement did not result in any change in the City's financial statements.

Also, during 2011 it was determined that capital assets were overstated by \$759,197. This change decreased net assets from \$2,345,847 to \$1,586,650.

**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 restricted, committed or assigned 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.
5. Budgetary revenues and expenditures of the recreation and federal nutrition funds are classified to the general fund for GAAP reporting.

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

**City of Garfield Heights, Ohio**  
*Notes to the Basic Financial Statements*  
For the Year Ended December 31, 2011

Net Change in Fund Balance	
GAAP Basis	\$1,113,777
Net Adjustment for Revenue Accruals	(48,570)
Beginning Unrecorded Cash	173,421
Ending Unrecorded Cash	(229,019)
Excess of revenues over (under) expenditures:	
Recreation	(88,395)
Federal Nutrition	163,918
Net Adjustment for Expenditure Accruals	(582,688)
Encumbrances	(76,101)
Budget Basis	\$426,343

**Note 5 - Accountability and Compliance**

***Accountability***

The following funds had deficit fund balances as of December 31, 2011:

<b><i>General Fund</i></b>	\$4,095,171
<b><i>Special Revenue Funds</i></b>	
Police Pension	220,606
Fire Pension	219,037
Street Construction, Maintenance and Repair	126,185
<b><i>Capital Projects Funds</i></b>	
Permanent Improvement	165,480
Storm and Sewer	33,196

The general fund concluded 2011 with a deficit fund balance of \$4,095,171. 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 19 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 was placed in fiscal emergency as a result of deficit spending which resulted in deficit funds contrary to the provisions of Chapter 5705, Revised Code. These violations were cited extensively (repeatedly) in the reports leading up to the declaration of emergency. While in emergency, it is anticipated that these violations will continue until the City regains financial stability. Until that time, only new violations in funds that were not in deficit at the time of the emergency declaration will be cited.

**City of Garfield Heights, Ohio**  
*Notes to the Basic Financial Statements*  
For the Year Ended December 31, 2011

**Note 6 - Fund Balances**

Fund balance is classified as nonspendable, restricted, committed, assigned and/or unassigned based primarily on the extent to which the City is bound to observe constraints imposed upon the use of the resources in the government funds. The constraints placed on fund balance for the major governmental funds and all other governmental funds are presented below:

Fund Balances	General	Bond Retirement	Nonmajor Governmental Funds	Total
<b><i>Nonspendable</i></b>				
Prepaid Items	\$31,601	\$0	\$1,139	\$32,740
Materials and Supplies Inventory	41,900	0	67,260	109,160
Unclaimed Monies	84,425	0	0	84,425
<b><i>Total Nonspendable</i></b>	<b>157,926</b>	<b>0</b>	<b>68,399</b>	<b>226,325</b>
<b><i>Restricted for</i></b>				
Municipal Court	0	0	507,971	507,971
Public Safety	0	0	471,002	471,002
Street Maintenance	0	0	38,789	38,789
Debt Service Payments	0	234,450	0	234,450
Street Lighting	0	0	41,298	41,298
Capital Improvements	0	0	536,909	536,909
<b><i>Total Restricted</i></b>	<b>0</b>	<b>234,450</b>	<b>1,595,969</b>	<b>1,830,419</b>
<b><i>Unassigned (Deficit)</i></b>	<b>(4,253,097)</b>	<b>0</b>	<b>(767,652)</b>	<b>(5,020,749)</b>
<b><i>Total Fund Balances (Deficit)</i></b>	<b>(\$4,095,171)</b>	<b>\$234,450</b>	<b>\$896,716</b>	<b>(\$2,964,005)</b>

**Note 7 - Deposits and Investments**

The City is a charter City and 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:

**City of Garfield Heights, Ohio**  
*Notes to the Basic Financial Statements*  
*For the Year Ended December 31, 2011*

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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.

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, \$1,882,409 of the City's bank balance of \$2,555,025 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.

**City of Garfield Heights, Ohio**  
*Notes to the Basic Financial Statements*  
*For the Year Ended December 31, 2011*

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**Note 8 - 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, 2011.

***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 9 – Receivables**

Receivables at December 31, 2011 consisted primarily of municipal income taxes, property taxes, payments in lieu of taxes, accounts, intergovernmental, interfund receivables and special assessments.

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 \$474,991 in the bond retirement fund.

***Property Taxes***

Property taxes include amounts levied against all real and public utility property located in the City. Property tax revenue received during 2011 for real and public utility property taxes represents collections of 2010 taxes.

2011 real property taxes were levied after October 1, 2011, on the assessed value as of January 1, 2011, the lien date. Assessed values are established by State law at 35 percent of appraised market value. 2011 real property taxes are collected in and intended to finance 2012.

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

Public utility tangible personal property currently is assessed at varying percentages of true value; public utility real property is assessed at 35 percent of true value. 2011 public utility property taxes which became a lien December 31, 2010, are levied after October 1, 2011, and are collected in 2012 with real property taxes.

The full tax rate for all City operations for the year ended December 31, 2011 was \$24.30 per \$1,000 of assessed value. The assessed values of real and tangible personal property upon which 2011 property tax receipts were based are as follows:

**City of Garfield Heights, Ohio**  
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Real Estate	
Residential/Agricultural	\$346,573,490
Other Real Estate	98,711,680
Tangible Personal Property	
Public Utility	9,533,100
Total	<u><u>\$454,818,270</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 Fiscal Officer periodically remits to the City its portion of the taxes collected. Property taxes receivable represents real and public utility property taxes and outstanding delinquencies which were measurable as of December 31, 2011, and for which there was an enforceable legal claim. In the governmental funds, the entire receivable has been deferred since current taxes were not levied to finance 2011 operations and the collection of delinquent taxes during the available period is not subject to reasonable estimation. On the accrual basis, collectible delinquent property taxes have been recorded as revenue while on the modified accrual basis the revenue has been 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: 81 percent to the general 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.

***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 Cuyahoga County Port Authority. The payable for this portion has been reported in the City's agency fund.

***Intergovernmental Receivables***

A summary of the principal items of intergovernmental receivables follows:

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	Amount
Homestead and Rollback	\$763,453
Local Government	748,435
Inheritance Tax	410,188
Gas Tax	383,183
Property Tax Reimbursement	135,872
Permissive Tax	101,902
Motor Vehicle License	82,386
Grants	30,553
Various Cities	17,231
State of Ohio	7,037
Cuyahoga County	471
<i>Total Intergovernmental Receivables</i>	<i>\$2,680,711</i>

**Note 10 - Capital Assets**

Capital asset activity for the year ended December 31, 2011, was as follows:

	Balance 12/31/2010 (Restated)	Additions	Deductions	Balance 12/31/11
<b>Governmental Activities</b>				
<i>Capital Assets, Not Being Depreciated</i>				
Land	\$1,573,091	\$0	\$0	\$1,573,091
<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	23,619	(122,141)	5,565,754
Machinery and Equipment	4,882,367	98,714	(40,156)	4,940,925
Furniture and Fixtures	681,817	8,457	0	690,274
Infrastructure				
Roads	24,906,863	150,704	0	25,057,567
Sanitary Sewers	3,578,655	435,000	0	4,013,655
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>	<i>\$62,313,781</i>	<i>\$716,494</i>	<i>(\$162,297)</i>	<i>\$62,867,978</i>

**City of Garfield Heights, Ohio**  
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	Balance 12/31/10	Additions	Deductions	Balance 12/31/11
<b>Governmental Activities Continued</b>				
<i>Capital Assets, Not Being Depreciated</i>				
<i>Less Accumulated Depreciation</i>				
Buildings	(\$5,973,935)	(\$328,627)	\$0	(\$6,302,562)
Improvements Other than Buildings	(2,307,381)	(114,413)	0	(2,421,794)
Vehicles	(3,457,780)	(343,291)	91,255	(3,709,816)
Machinery and Equipment	(3,907,223)	(185,442)	40,156	(4,052,509)
Furniture and Fixtures	(555,709)	(16,607)	0	(572,316)
Infrastructure				
Roads	(14,162,653)	(973,440)	0	(15,136,093)
Sanitary Sewers	(1,066,520)	(75,923)	0	(1,142,443)
Storm Sewers	(466,736)	(33,229)	0	(499,965)
Water Supply Lines	(174,416)	(13,114)	0	(187,530)
<i>Total Accumulated Depreciation</i>	<u>(32,072,353)</u>	<u>(2,084,086) *</u>	<u>131,411</u>	<u>(34,025,028)</u>
<i>Total Capital Assets being Depreciated, Net</i>	<u>30,241,428</u>	<u>(1,367,592)</u>	<u>(30,886)</u>	<u>28,842,950</u>
<i>Capital Assets, Net</i>	<u><u>\$31,814,519</u></u>	<u><u>(\$1,367,592)</u></u>	<u><u>(\$30,886)</u></u>	<u><u>\$30,416,041</u></u>

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

General Government	\$359,508
Security of Persons and Property	390,852
Public Health Services	38,391
Transportation	1,064,684
Basic Utility Services	142,654
Leisure Time Activities	87,997
Total Depreciation Expense	<u><u>\$2,084,086</u></u>

## Note 11 – 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.

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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 12 – Interfund Transfers and Balances**

***Interfund Transfers***

Transfer To	General	Transfer From Other Governmental Funds	Totals
Bond Retirement	\$80,000	\$978,173	\$1,058,173
Other Governmental Funds	1,295,227	0	1,295,227
Totals	\$1,375,227	\$978,173	\$2,353,400

During 2011, the general fund transferred out \$1,295,227 to various other governmental funds. Of this total, \$665,200 was transferred to the police pension and \$630,027 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 bond retirement debt service fund received transfers in of \$80,000 from the general fund, \$164,286 from the motor vehicle license tax special revenue fund, as well as \$461,887 from the storm and sanitary sewer and \$352,000 from the permanent improvement capital projects funds to support payments on long-term debt.

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**Interfund Balances**

	Interfund Payable
Interfund Receivable	General
<b>Special Revenue Funds</b>	
Street Construction, Maintenance and Repair	\$200,933
Indigent Drivers	393,614
Municipal Court Special Services	451,755
<b>Capital Project Fund</b>	
Permanent Improvement	107,117
<b>Total</b>	<b>\$1,153,419</b>

The interfund receivables and payables were the result of deficit cash balances in the general fund, due to expenditures exceeding revenues in 2011. All interfund balances are expected to be repaid within one year.

**Note 13 - 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 2011, the City contracted with Clarendon Insurance Company for various types of insurance as follows:

Type	Coverage	Per Occurrence
Property	\$31,127,331	
Inland Marine	2,377,182	
Comprehensive General Liability	6,000,000	\$8,000,000
Police Professional Liability	6,000,000	8,000,000
Employment Practices	6,000,000	6,000,000
Vehicle Liability	6,000,000	
Public Officials Liability	6,000,000	8,000,000

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 \$386,680 has been accrued in the general fund, 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

**City of Garfield Heights, Ohio**  
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liability reported at December 31, 2011 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 2011 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 2011. The minimum premium portion of intergovernmental payable is \$176,162 and the actual claim costs are \$94,383. The maintenance of these benefits is accounted for in the general fund. Claims of \$405,607 have been accrued as a liability at December 31, 2011 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 2010 and 2011 were:

	Balance Beginning of Year	Current Year Claims	Claim Payments	Change in Worker's Compensation Estimate	Balance at End of Year
2010	\$816,242	\$3,001,453	\$3,147,290	(\$370,258)	\$300,147
2011	300,147	2,371,107	2,508,743	629,776	792,287

**Note 14 – Short-Term Obligations**

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

	Balance 12/31/10	Additions	Reductions	Balance 12/31/11
2009 Local Government Borrowing	\$2,880,116	\$0	(\$759,000)	\$2,121,116
Unamortized Discount	(76,756)	0	20,023	(56,733)
<i>Total Short-Term Obligations</i>	<u>\$2,803,360</u>	<u>\$0</u>	<u>(\$738,977)</u>	<u>\$2,064,383</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, 2011 are as follows:

	Principal	Interest
2012	\$694,000	\$83,020
2013	747,000	54,740
2014	680,116	24,300
Totals	<u>\$2,121,116</u>	<u>\$162,060</u>

**City of Garfield Heights, Ohio**  
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**Note 15 - Long-Term Obligations**

Changes in long-term obligations of the City during the year ended December 31, 2011 were as follows:

	Outstanding 12/31/2010	Additions	Reductions	Outstanding 12/31/2011	Amounts Due in One Year
<b>Governmental Activities</b>					
<b>General Obligation Bonds</b>					
2002 1.09%-5.55% \$7,300,000					
Various Improvements	\$5,975,000	\$0	(\$230,000)	\$5,745,000	\$240,000
2004 4.75% \$9,900,000					
Various Improvements	8,389,000	0	(427,000)	7,962,000	448,000
2006 4.00% \$1,885,000					
Various Purpose Improvement					
Refunding Bonds	1,010,000	0	(240,000)	770,000	245,000
Unamortized Amount on Refunding Gain	2,926	0	(252)	2,674	0
2006 4.00% \$2,307,466					
Various Purpose Refunding Bonds	1,469,393	0	(228,564)	1,240,829	235,820
Unamortized Amount on Refunding Loss	(52,089)	0	4,392	(47,697)	0
2006 4.00% \$2,790,000					
Street Improvement	2,380,000	0	(155,000)	2,225,000	165,000
Unamortized Premium	102,761	0	(8,568)	94,193	0
2010 3.00% Various Improvement					
Serial Bonds	1,310,000	0	0	1,310,000	0
Term Bonds	9,315,000	0	(795,000)	8,520,000	845,000
Unamortized Premium	181,755	0	(10,092)	171,663	0
<b>Total General Obligation Bonds</b>	<b>30,083,746</b>	<b>0</b>	<b>(2,090,084)</b>	<b>27,993,662</b>	<b>2,178,820</b>
<b>Special Assessment Bonds</b>					
2006 4.00% \$325,000					
Various Purpose Improvement					
Refunding Bonds	180,000	0	(40,000)	140,000	45,000
2006 4.00% \$872,534					
Various Purpose Refunding Bonds	555,607	0	(86,436)	469,171	89,180
<b>Total Special Assessment Bonds</b>	<b>735,607</b>	<b>0</b>	<b>(126,436)</b>	<b>609,171</b>	<b>134,180</b>
<b>Other Governmental Activities</b>					
Compensated Absences Payable	4,587,534	151,150	(478,377)	4,260,307	841,370
Claims Payable	5,444	670,710	(270,547)	405,607	228,875
Police and Fire Pension Liability	606,065	0	(14,489)	591,576	15,111
<b>Total Other Governmental Activities</b>	<b>5,199,043</b>	<b>821,860</b>	<b>(763,413)</b>	<b>5,257,490</b>	<b>1,085,356</b>
<b>Total Governmental Activities</b>	<b>\$36,018,396</b>	<b>\$821,860</b>	<b>(\$2,979,933)</b>	<b>\$33,860,323</b>	<b>\$3,398,356</b>

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

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

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rates. 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.

The general obligation bonds consist of serial and term bonds in the amounts of \$1,310,000 and \$8,520,000, 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:

<u>Year</u>	<u>Amount</u>
2012	\$845,000
2013	865,000
2014	895,000
2015	910,000
Total	<u><u>\$3,515,000</u></u>

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

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.

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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:

Year	Amount
2026	\$380,000
2028	400,000
Total	<u>\$780,000</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 \$20,217,539 at December 31, 2011. Principal and interest requirements to retire long-term obligations outstanding at December 31, 2011 are as follows:

	General Obligation Bonds		Special Assessment Bonds		Police and Fire Pension	
	Principal	Interest	Principal	Interest	Principal	Interest
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	2,220,501	859,765	90,499	3,622	17,880	22,215
2017-2021	8,391,000	3,098,521	0	0	101,596	98,874
2022-2026	6,882,000	1,169,479	0	0	125,373	75,099
2027-2031	1,330,000	87,500	0	0	154,711	45,761
2032-2035	0	0	0	0	127,565	10,959
Totals	<u>\$27,772,829</u>	<u>\$9,536,982</u>	<u>\$609,171</u>	<u>\$73,822</u>	<u>\$591,576</u>	<u>\$348,834</u>

**Note 16 - 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 2011. 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).

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***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 2011, the City of Garfield Heights contributed \$3,000 to the First Suburbs Consortium. Financial information can be obtained by contacting First Suburbs Consortium of Northeast Ohio Council of Governments, 40 Severance Circle, Cleveland Heights, Ohio 44118.

## **Note 17 - 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 visiting <https://www.opers.org/investments/cafr.shtml>, 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 members in State and local divisions and 12 percent for law enforcement and public safety members. For the year ended December 31, 2011, members in state and local divisions contributed 10 percent of covered payroll while public safety and law enforcement members contributed 11 percent and 11.6 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 2011, member and employer contribution rates were consistent across all three plans.

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The City's 2011 contribution rate was 14 percent, except for those plan members in law enforcement or public safety, for whom the City's contribution was 18.1 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 4 percent for 2011. The portion of employer contributions allocated to health care for members in the Combined Plan was 6.05 percent for 2011. Employer contribution rates are actuarially determined.

The City's required contributions for pension obligations to the Traditional Pension and Combined Plans for the years ended December 31, 2011, 2010 and 2009 were \$486,491, \$883,464 and \$961,670, respectively. For 2011, 88.86 percent has been contributed with the balance being reported as an intergovernmental payable. The full amount has been contributed for 2010 and 2009. Contributions to the Member-Directed Plan for 2011 were \$9,944 made by the City and \$7,103 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 OP&F, 140 East Town Street, Columbus, Ohio 43215-5164.

Funding Policy – The Ohio Revised Code requires plan members to contribute 10 percent of their annual covered salary, while employers are required to contribute 19.5 percent for police officers and 24 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 pension were \$496,427 and \$532,790 for the year ended December 31, 2011, \$552,292 and \$549,876 for the year ended December 31, 2010, and \$534,473 and \$542,641 for the year ended December 31, 2009, respectively. For 2011, 70.94 percent for police and 70.45 percent for firefighters has been contributed with the balance for both police and firefighters being report as an intergovernmental payable. The full amount has been contributed for 2010 and 2009.

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, 2011, the unfunded liability of the City was \$591,576 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.

**City of Garfield Heights, Ohio**  
*Notes to the Basic Financial Statements*  
*For the Year Ended December 31, 2011*

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**Note 18 - 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.

Disclosures for the health care plan are presented separately in the OPERS financial report which may be obtained by visiting <https://www.opers.org/investments/cafr.shtml>, 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 2011, state and local employers contributed at a rate of 14 percent of covered payroll, and public safety and law enforcement employers contributed at 18.1 percent. These are the maximum employer contribution rates permitted by the Ohio Revised Code.

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 4.0 percent for 2011. The portion of employer contributions allocated to health care for members in the Combined Plan was 6.05 percent for 2011.

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.

**City of Garfield Heights, Ohio**  
*Notes to the Basic Financial Statements*  
*For the Year Ended December 31, 2011*

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The City's contributions allocated to fund post-employment health care benefits for the years ended December 31, 2011, 2010 and 2009 were \$194,596, \$510,169 and \$695,361, respectively. For 2011, 88.86 percent has been contributed with the balance being reported as an intergovernmental payable. The full amount has been contributed for 2010 and 2009.

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 enforcement 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.

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 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, 2011, 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, 2011*

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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 \$262,814 and \$208,483 for the year ended December 31, 2011, \$292,390 and \$215,169 for the year ended December 31, 2010, and \$282,956 and \$212,338 for the year ended December 31, 2009. For 2011, 70.94 percent has been contributed for police and 70.45 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 2010 and 2009.

**Note 19 – 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.

During 2009, 2010 and continuing into 2011, the City has taken steps to regain financial stability. As of December 31, 2011, the general fund continues to have a negative fund balance. The City has generated additional revenues through a full year's collection of their garbage collection fees.

**City of Garfield Heights, Ohio**  
*Notes to the Basic Financial Statements*  
*For the Year Ended December 31, 2011*

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**Independent Auditor's Report on Internal Control over Financial Reporting and on  
Compliance and Other Matters Based on an Audit of Financial Statements  
Performed in Accordance with *Government Auditing Standards***

To the City Council  
City of Garfield Heights, Ohio

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of City of Garfield Heights, Ohio (the "City"), as of and for the years ended December 31, 2012 and December 31, 2011, and the related notes to the financial statements, which collectively comprise the City's basic financial statements, and have issued our report thereon dated June 28, 2013 wherein we noted the City adopted Governmental Accounting Standards Board (GASB) Statement Nos. 54, 63, and 65. We also noted the City experienced certain financial difficulties during fiscal years 2012 and 2011. The Auditor of State has determined a fiscal emergency exists for fiscal years 2012 and 2011, 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 Revised Code. The City's financial difficulties have resulted in deficit fund balances in the General Fund of \$608,360 and other funds of \$627,885 at December 31, 2012 that raise substantial doubt about the City's ability to continue as a going concern. The City's financial difficulties have resulted in deficit fund balances in the General Fund of \$4,095,171 and other funds of \$764,504 at December 31, 2011.

**Internal Control over Financial Reporting**

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

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

To the City Council  
City of Garfield Heights, Ohio

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

### **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the City's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audits, and accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying Schedule of Findings as items 2011-01 and 2011-02.

### **City's Responses to Findings**

The City's responses to the findings identified in our audits are described in the accompanying Schedule of Findings. The City's responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

### **Purpose of this Report**

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

*Ciuni & Panichi, Inc.*

Cleveland, Ohio  
June 28, 2013

# City of Garfield Heights, Ohio

## Schedule of Findings

### For the Years Ended December 31, 2012 and 2011

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#### 1. Summary of Auditor's Results

(d)(1)(i)	Type of Financial Statement Opinion	Unmodified
(d)(1)(ii)	Was there any material control weaknesses reported at the financial statement level (GAGAS)?	No
(d)(1)(ii)	Were there any significant deficiencies in internal control reported at the financial statement level (GAGAS)?	No
(d)(1)(iii)	Was there any reported material noncompliance at the financial statement level (GAGAS)?	Yes

#### 2. Findings Related to the Financial Statements Required to be Reported in Accordance with GAGAS

##### 2011-01 – Material noncompliance

###### 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 a deficit fund balances at December 31, 2011, of \$1,413,993.

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 required.

###### Official's Response:

The City of Garfield Heights Finance Department agrees with this finding for the audit period ended December 31, 2011. We would however, like to make mention of the steps that have been instituted to eliminate this finding in future audit periods. The purchase and installation of a new financial system platform was the first priority of the Finance Department. 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.

# City of Garfield Heights, Ohio

Schedule of Findings (continued)

## For the Years Ended December 31, 2012 and 2011

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### **2. Findings Related to the Financial Statements Required to be Reported in Accordance with GAGAS (continued)**

#### **2011-01 – Material noncompliance (continued)**

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.

At the time of this change in administration of the Finance Department in early 2010, 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 was maintained throughout 2012. In early 2013 the Finance Department implemented the process of paying completed, properly invoiced, vendor payable checks every Friday, thus reducing the timing of payments down to 30 days, which is where the City currently stands in regards to its' accounts payable.

At December 31, 2012 the actual ending cash balance of the General Fund was \$1,306,497.27, and after accounting for all encumbrances the General Fund had a positive balance of \$856,938.15, thus eliminating this comment for the period ended December 31, 2012. Furthermore, the City's 5-year forecast shows positive General Fund balances for all years through December 31, 2017.

#### **2011-02 – Material noncompliance**

##### 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 comply with all elements of the approved plan. We noted the following noncompliance with the Plan:

# City of Garfield Heights, Ohio

## Schedule of Findings (continued)

### For the Years Ended December 31, 2012 and 2011

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#### **2. Findings Related to the Financial Statements Required to be Reported in Accordance with GAGAS (continued)**

##### **2011-02 – Material noncompliance (continued)**

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, 2011, City Council adopted the permanent appropriations ordinance on February 28, 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 2011, the Finance Department closed the preceding month's books and reconciled to the banks after the 12th day of the following month.

##### Official's Response:

The City of Garfield Heights Finance Department agrees with this finding for the audit period ended December 31, 2011. In 2010, 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 31st.

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 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.

## City of Garfield Heights, Ohio

### Schedule of Findings (continued)

#### **For the Years Ended December 31, 2012 and 2011**

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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 1st; 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, 2011 deadline stipulated in the Recovery Plan. This process and timing was also followed for the budgetary process for the 2013 budget, and 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.

### **3. Findings**

None.

# City of Garfield Heights

## Schedule of Prior Audit Findings

### For the Years Ended December 31, 2012 and 2011

Finding No.	Finding Summary	Fully Corrected	Explanation
2010-001	<p>Ohio Revised Code Section 5705.41(B) states that no subdivision or taxing unit is to expend money unless it has been appropriated.</p> <p>At December 31, 2010, the City had numerous funds with expenditures plus encumbrances in excess of appropriations.</p>	Yes	The City has fully corrected this material noncompliance for 2011 and 2012.
2010-002	<p>Ohio Revised Code Section 5705.39 the total appropriation from each fund should not exceed the total estimated revenue. No appropriation measure is to become effective until the County Auditor files a certificate that the total appropriations from each fund do not exceed the total official estimate or amended official estimate.</p> <p>At December 31, 2010, the General Fund had final appropriations in excess of estimated resources plus carryover balances.</p>	No	The City has immaterial noncompliance again in 2012. This has been included in the Management Representation Letter.
2010-003	<p>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.</p> <p>The General Fund had deficit fund balances at December 31, 2010, and December 31, 2009, of \$1,659,885 and \$1,418,983, respectively</p>	No	The City has material noncompliance again in 2011.

## City of Garfield Heights

Schedule of Prior Audit Findings (continued)

**For the Years Ended December 31, 2012 and 2011**

Finding No.	Finding Summary	Fully Corrected	Explanation
2010-004	<p>Ohio Rev. Code Section 5705.41(0)(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.</p> <p>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.</p>	Yes	The City has fully corrected this material noncompliance for 2011 and 2012.
2010-005	<p>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.</p> <p>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.</p>	No	The City has material noncompliance again in 2011.



# 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  
SEPTEMBER 10, 2013**