

City of Garfield Heights, Ohio

**Basic Financial Statements
December 31, 2015**



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, 2015 through December 31, 2015. 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 cursive script that reads "Dave Yost".

Dave Yost
Auditor of State

September 13, 2017

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City of Garfield Heights, Ohio

For The Year Ended December 31, 2015

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City of Garfield Heights, Ohio

For The Year Ended December 31, 2015

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Independent Auditor's Report

Members of 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 the City of Garfield Heights, Ohio (the "City"), as of and for the year ended December 31, 2015, 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 audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit 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 City'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 City'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.

Members of the City Council
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, 2015, and the respective changes in financial position and the respective budgetary comparison for the General Fund for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As described in Note 22 to the basic financial statements, during 2015, the City adopted new accounting guidance, Governmental Accounting Standards Board (GASB) Statement No. 68, *Accounting and Financial Reporting for Pensions – an amendment of GASB No. 27*, and GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date – an amendment of GASB Statement No. 68*, and as a result restated their December 31, 2014 net position of the governmental activities. Our opinions are 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 3 through 13 and the schedules of the City's proportionate share of the net pension liability and schedules of the City's contributions on pages 59 through 63 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 management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated June 30, 2017 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 the City's internal control over financial reporting and compliance.

Ciuni + Panichi, Inc.

Cleveland, Ohio
June 30, 2017

City of Garfield Heights, Ohio
Management's Discussion and Analysis
For the Year Ended December 31, 2015
Unaudited

This Discussion and Analysis of the City of Garfield Heights' financial performance provides an overall review of the City's financial activities for the year ended December 31, 2015. 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

- The City implemented GASB 68 and GASB 71, which establish standards for measuring and recognizing pension liabilities, deferred outflows/inflows of resources and expense/expenditure. The implementation of these GASB statements resulted in a significant change to the financial statements presentation of the City. The City has reported these liabilities to comply with the requirements of GASB 68 and 71.
- Revenues exceeded expenses for the year 2015. This was primarily due to increased income taxes received during the year.
- The City has various ongoing construction projects in 2015, the largest being the Granger/Transportation intersection improvement. This project made up the majority of the construction in progress and was completed in 2015.

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 2015?" 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.

City of Garfield Heights, Ohio
Management's Discussion and Analysis
For the Year Ended December 31, 2015
Unaudited

These two statements report the City's net position and the changes in net position. This change in net position 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 10. Fund financial reports provide detailed information about the City's major funds. Based on restrictions on the use of monies, the City has established many funds, which account for the multitude of services provided to the City's residents. However, these fund financial statements focus on the City's most significant funds. In the case of the City of Garfield Heights, the City's major funds are the general fund, the storm and sewer and street improvement capital projects funds 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 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 position for 2015 compared to 2014.

City of Garfield Heights, Ohio
Management's Discussion and Analysis
For the Year Ended December 31, 2015
Unaudited

| (Table 1) | | | |
|---|---------------------|---------------------|--------------------|
| Net Position | | | |
| Governmental Activities | | | |
| | 2015 | Restated 2014 | Change |
| Assets | | | |
| Current and Other Assets | \$25,394,390 | \$25,091,466 | \$302,924 |
| Capital Assets, Net | 34,703,453 | 31,629,231 | 3,074,222 |
| <i>Total Assets</i> | <u>60,097,843</u> | <u>56,720,697</u> | <u>3,377,146</u> |
| Deferred Outflows of Resources | | | |
| Deferred Charge on Refunding Pension | 230,270 | 251,342 | (21,072) |
| | 3,155,664 | 2,101,697 | 1,053,967 |
| <i>Total Deferred Outflows of Resources</i> | <u>3,385,934</u> | <u>2,353,039</u> | <u>1,032,895</u> |
| Liabilities | | | |
| Current and Other Liabilities | 4,988,178 | 3,008,163 | (1,980,015) |
| Long-Term Liabilities: | | | |
| Due Within One Year | 3,008,448 | 2,934,823 | (73,625) |
| Due in More than One Year | | | |
| Net Pension Liability | 23,410,174 | 22,199,315 | (1,210,859) |
| Other Amounts | 21,659,526 | 24,353,850 | 2,694,324 |
| <i>Total Liabilities</i> | <u>53,066,326</u> | <u>52,496,151</u> | <u>(570,175)</u> |
| Deferred Inflows of Resources | | | |
| Property Taxes | 5,955,889 | 7,135,674 | 1,179,785 |
| Pension | 89,782 | 0 | (89,782) |
| Payments in Lieu of Taxes | 180,041 | 73,642 | (106,399) |
| <i>Total Deferred Inflows of Resources</i> | <u>6,225,712</u> | <u>7,209,316</u> | <u>983,604</u> |
| Net Position | | | |
| Net Investment in Capital Assets | 19,405,650 | 16,423,121 | 2,982,529 |
| Restricted: | | | |
| Capital Projects | 4,109,122 | 1,689,307 | 2,419,815 |
| Debt Service | 764,861 | 900,179 | (135,318) |
| Street Lighting | 182,129 | 167,529 | 14,600 |
| Courts | 151,887 | 192,281 | (40,394) |
| Other Purposes | 1,447,489 | 1,347,085 | 100,404 |
| Unrestricted (Deficit) | <u>(21,869,399)</u> | <u>(21,351,233)</u> | <u>(518,166)</u> |
| <i>Total Net Position</i> | <u>\$4,191,739</u> | <u>(\$631,731)</u> | <u>\$4,823,470</u> |

During 2015, the City adopted GASB Statement 68, "Accounting and Financial Reporting for Pensions—an Amendment of GASB Statement 27," which significantly revises accounting for pension costs and liabilities. For reasons discussed below, many end users of this financial statement will gain a clearer understanding of the City's actual financial condition by adding deferred inflows related to pension and the net pension liability to the reported net position and subtracting deferred outflows related to pension.

City of Garfield Heights, Ohio
Management's Discussion and Analysis
For the Year Ended December 31, 2015
Unaudited

Governmental Accounting Standards Board standards are national and apply to all government financial reports prepared in accordance with generally accepted accounting principles. When accounting for pension costs, GASB 27 focused on a funding approach. This approach limited pension costs to contributions annually required by law, which may or may not be sufficient to fully fund each plan's *net pension liability*. GASB 68 takes an earnings approach to pension accounting; however, the nature of Ohio's statewide pension systems and state law governing those systems requires additional explanation in order to properly understand the information presented in these statements.

Under the new standards required by GASB 68, the net pension liability equals the City's proportionate share of each plan's collective:

1. Present value of estimated future pension benefits attributable to active and inactive employees' past service
2. Minus plan assets available to pay these benefits

GASB notes that pension obligations, whether funded or unfunded, are part of the "employment exchange" – that is, the employee is trading his or her labor in exchange for wages, benefits, and the promise of a future pension. GASB noted that the unfunded portion of this pension promise is a present obligation of the government, part of a bargained-for benefit to the employee, and should accordingly be reported by the government as a liability since they received the benefit of the exchange. However, the City is not responsible for certain key factors affecting the balance of this liability. In Ohio, the employee shares the obligation of funding pension benefits with the employer. Both employer and employee contribution rates are capped by State statute. A change in these caps requires action of both Houses of the General Assembly and approval of the Governor. Benefit provisions are also determined by State statute. The employee enters the employment exchange with the knowledge that the employer's promise is limited not by contract but by law. The employer enters the exchange also knowing that there is a specific, legal limit to its contribution to the pension system. In Ohio, there is no legal means to enforce the unfunded liability of the pension system *as against the public employer*. State law operates to mitigate/lessen the moral obligation of the public employer to the employee, because all parties enter the employment exchange with notice as to the law. The pension system is responsible for the administration of the plan.

Most long-term liabilities have set repayment schedules or, in the case of compensated absences (i.e. sick and vacation leave), are satisfied through paid time-off or termination payments. There is no repayment schedule for the net pension liability. As explained above, changes in pension benefits, contribution rates, and return on investments affect the balance of the net pension liability, but are outside the control of the local government. In the event that contributions, investment returns, and other changes are insufficient to keep up with required pension payments, State statute does not assign/identify the responsible party for the unfunded portion. Due to the unique nature of how the net pension liability is satisfied, this liability is separately identified within the long-term liability section of the statement of net position.

In accordance with GASB 68, the City's statements prepared on an accrual basis of accounting include an annual pension expense for their proportionate share of each plan's *change* in net pension liability not accounted for as deferred inflows/outflows.

As a result of implementing GASB 68, the City is reporting a net pension liability and deferred inflows/outflows of resources related to pension on the accrual basis of accounting. This implementation had the effect of restating net position at December 31, 2014, from \$19,465,887 to (\$631,731) for governmental activities.

City of Garfield Heights, Ohio
Management's Discussion and Analysis
For the Year Ended December 31, 2015
Unaudited

By comparing assets and deferred outflows of resources and liabilities and deferred inflows of resources, one can see the position of the City has increased as evidenced by the increase in net position. The increase in assets is due to an increase in capital assets, as additions exceed current year depreciation. Liabilities increased due to increases in intergovernmental payables as well as the net pension liability. 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 2015 and 2014.

Table 2
Changes in Net Position

| | Governmental Activities | | |
|--|-------------------------|---------------------|--------------------|
| | 2015 | Restated 2014 | Change |
| Revenues | | | |
| <i>Program Revenues</i> | | | |
| Charges for Services | \$5,379,136 | \$6,008,869 | (\$629,733) |
| Operating Grants | 1,241,976 | 1,242,833 | (857) |
| Capital Grants and Assessments | 4,179,345 | 2,234,106 | 1,945,239 |
| <i>Total Program Revenues</i> | 10,800,457 | 9,485,808 | 1,314,649 |
| <i>General Revenues</i> | | | |
| Property Taxes | 7,270,885 | 7,831,617 | (560,732) |
| Municipal Income Taxes | 12,830,038 | 9,792,407 | 3,037,631 |
| Grants and Entitlements not Restricted to Specific Programs | 2,121,919 | 2,591,870 | (469,951) |
| Payments in Lieu of Taxes | 135,979 | 73,642 | 62,337 |
| Interest | 23,899 | 15,744 | 8,155 |
| Franchise Fees | 347,602 | 325,501 | 22,101 |
| Other | 1,074,243 | 401,423 | 672,820 |
| <i>Total General Revenues</i> | 23,804,565 | 21,032,204 | 2,772,361 |
| <i>Total Revenues</i> | \$34,605,022 | \$30,518,012 | \$4,087,010 |

City of Garfield Heights, Ohio
Management's Discussion and Analysis
For the Year Ended December 31, 2015
Unaudited

Table 2 continued
Changes in Net Position

| | Governmental Activities | | |
|----------------------------------|---------------------------|---------------------------|---------------------------|
| | 2015 | Restated 2014 | Change |
| Program Expenses | | | |
| General Government | \$6,938,381 | \$7,828,152 | \$889,771 |
| Security of Persons and Property | 12,141,405 | 13,085,489 | 944,084 |
| Public Health Services | 473,331 | 1,022,681 | 549,350 |
| Transportation | 3,912,832 | 2,926,445 | (986,387) |
| Community Development | 280,802 | 275,296 | (5,506) |
| Basic Utility Services | 4,219,067 | 2,269,113 | (1,949,954) |
| Leisure Time Activities | 907,986 | 418,270 | (489,716) |
| Interest and Fiscal Charges | 907,748 | 1,019,305 | 111,557 |
| <i>Total Program Expenses</i> | <u>29,781,552</u> | <u>28,844,751</u> | <u>(936,801)</u> |
| <i>Change in Net Position</i> | 4,823,470 | 1,673,261 | 3,150,209 |
| Net Position Beginning of Year | <u>(631,731)</u> | N/A | N/A |
| <i>Net Position End of Year</i> | <u><u>\$4,191,739</u></u> | <u><u>(\$631,731)</u></u> | <u><u>\$4,823,470</u></u> |

The information necessary to restate the 2014 beginning balances and the 2014 pension expense amounts for the effects of the initial implementation of GASB 68 is not available. Therefore, 2014 functional expenses still include pension expense of \$2,101,697 computed under GASB 27. GASB 27 required recognizing pension expense equal to the contractually required contributions to the plan. Under GASB 68, pension expense represents additional amounts earned, adjusted by deferred inflows/outflows. The contractually required contribution is no longer a component of pension expense. Under GASB 68, the 2015 statements report pension expense of \$2,340,958. Consequently, in order to compare 2015 total program expenses to 2014, the following adjustments are needed:

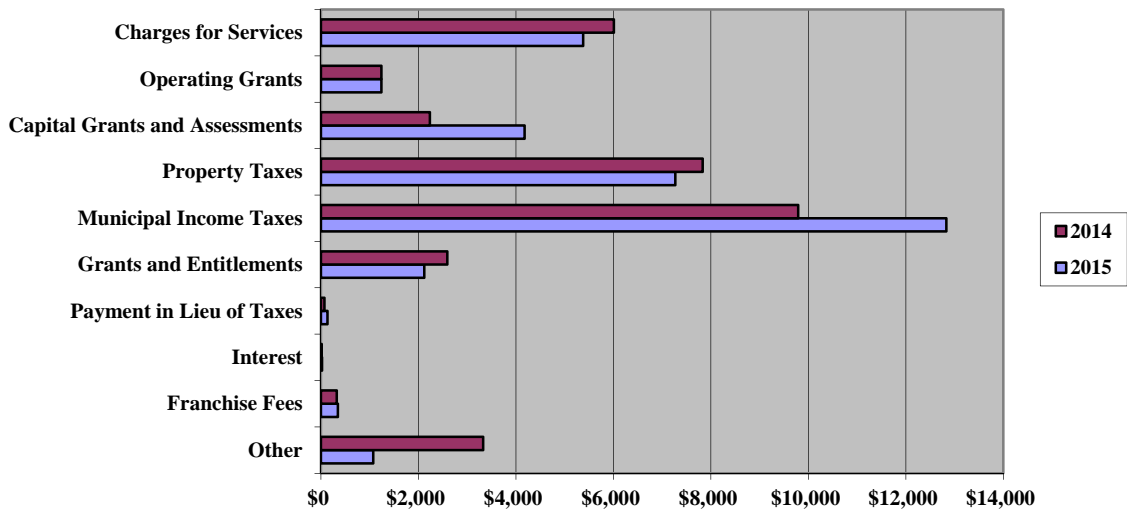
| | Governmental Activities |
|--|----------------------------|
| Total 2015 program expenses under GASB 68 | \$29,781,552 |
| Pension expense under GASB 68 | (2,340,958) |
| 2015 contractually required contribution | <u>2,094,284</u> |
| Adjusted 2015 program expenses | 29,534,878 |
| Total 2014 program expenses under GASB 27 | <u>28,844,751</u> |
| Increase/(Decrease) in program expenses not related to pension | <u><u>\$690,127</u></u> |

City of Garfield Heights, Ohio
Management's Discussion and Analysis
For the Year Ended December 31, 2015
Unaudited

Governmental Activities

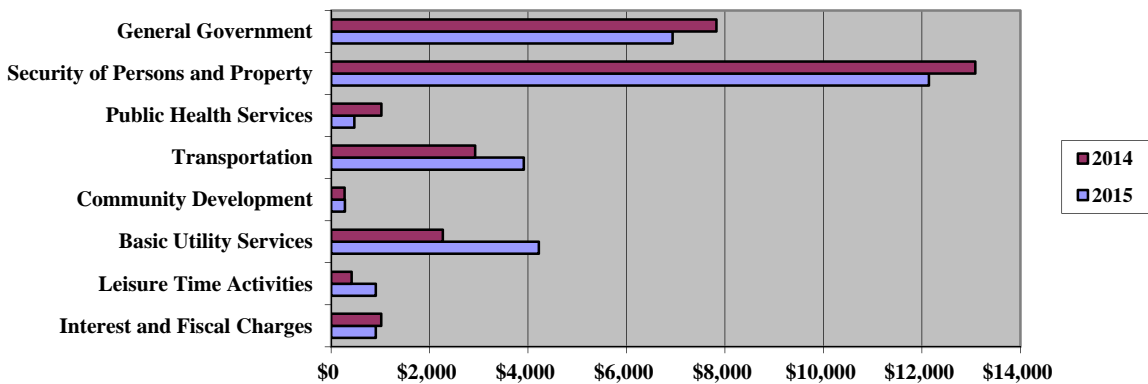
Several revenue sources fund our governmental activities, with income taxes being the largest. Municipal income taxes increased significantly in 2015. The income tax rate of 2.0 percent, with a 100 percent credit for payments made to other cities, was approved by a vote of our citizens in 1982, which took effect in January of 1983. The increase in income taxes is due to the City receiving large estimated payments for net profits from companies. Property taxes are the second largest source of revenue. Property taxes decreased due to a decrease in estimated collectible delinquencies. The increase in capital grants and assessments was due to additional OPWC funding for road and sewer projects.

Governmental Revenues (In Thousands)



Major expense activities, under the accrual basis of accounting, include security of persons and property expenses and general government programs. Overall expenses decreased from 2014, as is shown in the chart below. The decrease is due to a reduction in staffing through attrition and less transfers from the general fund to other special revenue funds and the debt service fund.

Governmental Expenses (In Thousands)



City of Garfield Heights, Ohio
Management's Discussion and Analysis
For the Year Ended December 31, 2015
Unaudited

The City's Funds

Information about the City's major governmental funds begins with the balance sheet. These funds are accounted for using the modified accrual basis of accounting.

The City's major governmental funds are the general fund, the storm and sewer and street improvement capital projects funds and the bond retirement debt service fund. Despite significant decreases in property and income tax revenues, the general fund saw an increase in fund balance due to a drop in expenditures resulting from careful budgeting as revenue plus other financing sources continued to exceed expenditures plus other financing uses. The storm and sewer capital project fund saw an increase in fund balance due to revenues outpacing expenditures. The street improvement capital project fund saw a decrease in fund balance due to expenditures outpacing revenues. The bond retirement fund saw a decrease in fund balance due to a drop in debt service revenues.

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 2015, 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 2013, 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. The City's 2014 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.

In 2015, the general fund's final revenue estimate was consistent with the original revenue estimate. The general fund's actual revenue plus other financing sources was higher than the final revenue estimate. Actual expenditures plus other financing uses were under the final budget due mainly to lower general government expenditures for materials and supplies and contractual services. Through careful monitoring by the Administration, the City was able to positively affect the general fund's balance for 2015.

City of Garfield Heights, Ohio
Management's Discussion and Analysis
For the Year Ended December 31, 2015
Unaudited

Capital Assets and General Long-Term Obligations

Capital Assets

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

| | Governmental Activities | |
|----------------------------|-------------------------|--------------|
| | 2015 | 2014 |
| Land | \$1,927,112 | \$1,670,555 |
| Construction in Progress | 0 | 982,749 |
| Buildings and Improvements | 10,162,211 | 10,321,574 |
| Vehicles | 1,072,104 | 1,274,415 |
| Machinery and Equipment | 1,345,560 | 1,448,889 |
| Furniture and Fixtures | 145,041 | 139,073 |
| Infrastructure | 20,051,425 | 15,791,976 |
| Total | \$34,703,453 | \$31,629,231 |

Total capital assets for the City of Garfield Heights as of December 31, 2015 increased over 2014 due to capital asset additions outpacing annual depreciation. Capital asset additions for 2015 consisted of additions to construction in progress, improvements, vehicles, machinery and equipment, and furniture and fixtures. The addition to construction relates primarily to the Granger/Transportation Intersection improvement project that began in 2014. See Note 10 for additional information on the City's capital assets.

Long Term Obligations

The City's overall legal debt margin at December 31, 2015 was \$19,080,212. Table 4 indicates the total outstanding long-term debt of the City.

Table 4
 Long-Term Obligations at Year End

| | Governmental Activities | |
|--------------------------------------|-------------------------|--------------|
| | 2015 | 2014 |
| General Obligation Bonds | \$19,334,485 | \$21,608,865 |
| Special Assessment Bonds | 113,845 | 190,708 |
| Net Pension Liability | 23,410,174 | 22,199,315 |
| Compensated Absences | 4,179,150 | 4,160,889 |
| Worker's Compensation Claims Payable | 219,340 | 368,188 |
| Police and Fire Liability | 527,125 | 544,268 |
| Capital Leases Payable | 294,029 | 415,755 |
| Total | \$48,078,148 | \$49,487,988 |

The police and fire loan shown in Table 4 above, in the amount of \$527,125 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.

City of Garfield Heights, Ohio
Management's Discussion and Analysis
For the Year Ended December 31, 2015
Unaudited

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, due to the fiscal emergency situation that existed, many renovation and repair plans had to be postponed, however, in spite of the fiscal emergency condition the City was able to negotiate with potential new business owners regarding development and also was able to complete many needed infrastructure upgrades.

Since the City's release from fiscal emergency in 2013, the City continues to prioritize renovation and repair plans in regards to the City's infrastructure. We continue to negotiate with potential new business owners regarding development within the City.

In 2015, the City has continued to work with two major, future, private development opportunities within the I-480 Interchange Development District that the City is closely monitoring and working with the owners and developers to bring to fruition. The first of these includes the completion of the extension of Transportation Boulevard through to Rockside Road, which is south of the I-480 Interchange. During 2011, the State of Ohio EPA lifted its ban on the continued construction of Transportation Boulevard 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 project began in 2012 and continued in 2013 with the accumulation of capping material on the site to meet the EPA permit rules for the development to proceed. During 2013, the City entered an agreement with Bohning Engineering for the development of plans and specifications for the grading and elevation requirements of the capping material. This project was scheduled to begin in the summer of 2014. But due to complications arising with the grading to EPA required capping and elevation specifications and the relocation to other areas of the site of a portion of the refuse this project has had little activity during 2014 and 2015.

To the north of the I-480 Interchange, a new Garfield Heights developer, the Craig Realty Group, finalized the acquisition of all rights and ownership to approximately 60-80 acres of virgin land that was once referred to as the Bridgeview Development site in late 2013. The Craig Realty Group's future plans for this site have been identified as a retail outlet mall, to be completed in 2 -3 phases. The City has been in discussions with this development group for over 3 years, and over the past year has been in negotiations pertaining to the potential financing options, available to the developer, where the City can be instrumental in aiding the development of this site.

In 2015, the majority of the construction of the Granger/Transportation Blvd area that will aid in the development of this retail area was completed. The widening of the road in and around this development site is to assist in the traffic flow for future development of this area. The majority of this project has been completed in 2015 with retainage to be payable in 2016.

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 2010 - 2012, the City was informed of major roadway improvements that would be taking place within the City. Through cooperation agreements with Cuyahoga County, the City of Cleveland's Water Department, the Ohio Public Works Commission (OPWC), and neighboring communities, various roadway projects have been completed and future projects are now planned.

City of Garfield Heights, Ohio
Management's Discussion and Analysis
For the Year Ended December 31, 2015
Unaudited

In partnership with the Cuyahoga County Department of Public Services, many sewer system problem areas have been remedied between 2011 and 2013. In 2015, the City began construction of the Multi-Street Construction Project Phase 1 with funding from the City of Cleveland's Water Department and the Ohio Public Works Commission (OPWC). The majority of this project was completed in 2015 with the balance of the project completed in 2016. In 2015, funding opportunities were entered into in order for the City to continue these street reconstruction and water line projects in 2016 with Multi-Street Construction Project Phase 2 with the same potential funding from the City of Cleveland Water Department and OPWC.

In 2015, the City issued a \$2 million dollar short-term income tax revenue note to fund road improvements throughout all the seven wards in the City. The City was able to repair and pave varying street lengths along with catch basin repairs of approximately 36 city streets. With the 2015 paving project finishing under budget, the City's Board of Control issued additional change orders to complete additional areas in 2015 along with additional work to be completed in 2016.

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 Barbara Biro, Finance Director, City of Garfield Heights, 5407 Turney Road, Garfield Heights, Ohio 44125, phone: (216) 475-1100.

City of Garfield Heights, Ohio
Statement of Net Position
December 31, 2015

| | Governmental Activities |
|--|----------------------------|
| Assets | |
| Equity in Pooled Cash and Cash Equivalents | \$9,226,423 |
| Cash and Cash Equivalents With Fiscal Agents | 20,032 |
| Accounts Receivable | 1,121,605 |
| Intergovernmental Receivable | 1,844,834 |
| Prepaid Items | 12,295 |
| Materials and Supplies Inventory | 120,257 |
| Municipal Income Taxes Receivable | 3,188,831 |
| Property Taxes Receivable | 9,589,520 |
| Special Assessments Receivable | 90,552 |
| Payments in Lieu of Taxes Receivable | 180,041 |
| Nondepreciable Capital Assets | 1,927,112 |
| Depreciable Capital Assets, Net | 32,776,341 |
| <i>Total Assets</i> | <i>60,097,843</i> |
| Deferred Outflows of Resources | |
| Deferred Charge on Refunding | 230,270 |
| Pension | 3,155,664 |
| <i>Total Deferred Outflows of Resources</i> | <i>3,385,934</i> |
| Liabilities | |
| Accounts Payable | 342,331 |
| Contracts Payable | 33,726 |
| Accrued Wages | 290,898 |
| Retainage Payable | 535,877 |
| Intergovernmental Payable | 654,147 |
| Notes Payable | 2,005,930 |
| Unearned Revenue | 900,000 |
| Accrued Interest Payable | 46,920 |
| Claims Payable | 178,349 |
| Long-Term Liabilities: | |
| Due Within One Year | 3,008,448 |
| Due In More Than One Year | |
| Net Pension Liability (See Note 18) | 23,410,174 |
| Other Amounts | 21,659,526 |
| <i>Total Liabilities</i> | <i>53,066,326</i> |
| Deferred Inflows of Resources | |
| Property Taxes | 5,955,889 |
| Pension | 89,782 |
| Payments in Lieu of Taxes | 180,041 |
| <i>Total Deferred Inflows of Resources</i> | <i>6,225,712</i> |
| Net Position | |
| Net Investment in Capital Assets | 19,405,650 |
| Restricted for: | |
| Capital Projects | 4,109,122 |
| Debt Service | 764,861 |
| Street Lighting | 182,129 |
| Courts | 151,887 |
| Other Purposes | 1,447,489 |
| Unrestricted (Deficit) | (21,869,399) |
| <i>Total Net Position</i> | <i>\$4,191,739</i> |

See accompanying notes to the basic financial statements

City of Garfield Heights, Ohio
Statement of Activities
For the Year Ended December 31, 2015

| | Program Revenues | | | | Net (Expense) |
|----------------------------------|---------------------|-------------------------|---------------------|--------------------------------------|---|
| | Expenses | Charges for Services | Operating Grants | Capital Grants and Assessments | Revenue and Changes in Net Position |
| Governmental Activities: | | | | | |
| General Government | \$6,938,381 | \$1,937,749 | \$165,495 | \$73,552 | (\$4,761,585) |
| Security of Persons and Property | 12,141,405 | 2,525,961 | 54,463 | 0 | (9,560,981) |
| Public Health Services | 473,331 | 96,746 | 0 | 0 | (376,585) |
| Transportation | 3,912,832 | 271,672 | 961,066 | 957,308 | (1,722,786) |
| Community Development | 280,802 | 67,469 | 0 | 0 | (213,333) |
| Basic Utility Services | 4,219,067 | 337,637 | 60,952 | 3,148,485 | (671,993) |
| Leisure Time Activities | 907,986 | 141,902 | 0 | 0 | (766,084) |
| Interest and Fiscal Charges | 907,748 | 0 | 0 | 0 | (907,748) |
| <i>Totals</i> | <u>\$29,781,552</u> | <u>\$5,379,136</u> | <u>\$1,241,976</u> | <u>\$4,179,345</u> | <u>(18,981,095)</u> |

General Revenues

| | |
|--|--------------------|
| Property Taxes Levied for: | |
| General Purposes | 5,564,904 |
| Street Lighting | 307,132 |
| Police Pension | 80,149 |
| Fire Pension | 80,149 |
| Debt Service | 971,841 |
| Capital Outlay | 266,710 |
| Municipal Income Tax Levied for: | |
| General Purposes | 9,349,142 |
| Street Construction, Maintenance and Repair | 1,336,310 |
| Debt Service | 808,276 |
| Capital Outlay | 1,336,310 |
| Grants and Entitlements not | |
| Restricted to Specific Programs | 2,121,919 |
| Payments in Lieu of Taxes | 135,979 |
| Interest | 23,899 |
| Franchise Fees | 347,602 |
| Other | 1,074,243 |
| <i>Total General Revenues</i> | <u>23,804,565</u> |
| Change in Net Position | 4,823,470 |
| <i>Net Position Beginning of Year (Restated - See Note 22)</i> | <u>(631,731)</u> |
| <i>Net Position End of Year</i> | <u>\$4,191,739</u> |

See accompanying notes to the basic financial statements

City of Garfield Heights, Ohio

*Balance Sheet
Governmental Funds
December 31, 2015*

| | General | Storm and Sewer | Street Improvement | Bond Retirement | Other Governmental Funds | Total Governmental Funds |
|---|---------------------|--------------------|-----------------------|--------------------|--------------------------------|--------------------------------|
| Assets | | | | | | |
| Equity in Pooled Cash and Cash Equivalents | \$5,135,244 | \$1,945,294 | \$770,535 | \$109,657 | \$1,133,516 | \$9,094,246 |
| Cash and Cash Equivalents | | | | | | |
| With Fiscal Agents | 0 | 0 | 0 | 0 | 20,032 | 20,032 |
| Accounts Receivable | 1,099,743 | 0 | 0 | 0 | 21,862 | 1,121,605 |
| Intergovernmental Receivable | 1,028,951 | 0 | 0 | 150,772 | 665,111 | 1,844,834 |
| Prepaid Items | 11,059 | 0 | 0 | 0 | 1,236 | 12,295 |
| Materials and Supplies Inventory | 42,785 | 0 | 0 | 0 | 77,472 | 120,257 |
| Payments in Lieu of Taxes Receivable | 0 | 0 | 0 | 0 | 180,041 | 180,041 |
| Municipal Income Taxes Receivable | 2,582,953 | 191,330 | 0 | 223,218 | 191,330 | 3,188,831 |
| Property Taxes Receivable | 7,338,420 | 0 | 0 | 1,282,335 | 968,765 | 9,589,520 |
| Special Assessments Receivable | 0 | 0 | 0 | 90,552 | 0 | 90,552 |
| Restricted Assets: | | | | | | |
| Equity in Pooled Cash and Cash Equivalents | 132,177 | 0 | 0 | 0 | 0 | 132,177 |
| Total Assets | <u>\$17,371,332</u> | <u>\$2,136,624</u> | <u>\$770,535</u> | <u>\$1,856,534</u> | <u>\$3,259,365</u> | <u>\$25,394,390</u> |
| Liabilities | | | | | | |
| Accounts Payable | \$275,694 | \$6,943 | \$0 | \$0 | \$59,694 | \$342,331 |
| Contracts Payable | 33,726 | 0 | 0 | 0 | 0 | 33,726 |
| Accrued Wages | 260,396 | 2,753 | 0 | 0 | 27,749 | 290,898 |
| Retainage Payable | 0 | 162,279 | 373,598 | 0 | 0 | 535,877 |
| Intergovernmental Payable | 511,729 | 2,546 | 0 | 0 | 139,872 | 654,147 |
| Unearned Revenue | 570,600 | 0 | 0 | 0 | 329,400 | 900,000 |
| Notes Payable | 0 | 0 | 2,005,930 | 0 | 0 | 2,005,930 |
| Claims Payable | 167,934 | 0 | 0 | 0 | 10,415 | 178,349 |
| Total Liabilities | <u>1,820,079</u> | <u>174,521</u> | <u>2,379,528</u> | <u>0</u> | <u>567,130</u> | <u>4,941,258</u> |
| Deferred Inflows of Resources | | | | | | |
| Property Taxes | 4,557,602 | 0 | 0 | 796,519 | 601,768 | 5,955,889 |
| Payments in Lieu of Taxes | 0 | 0 | 0 | 0 | 180,041 | 180,041 |
| Unavailable Revenue | 6,263,004 | 135,846 | 0 | 885,627 | 940,800 | 8,225,277 |
| Total Deferred Inflows of Resources | <u>10,820,606</u> | <u>135,846</u> | <u>0</u> | <u>1,682,146</u> | <u>1,722,609</u> | <u>14,361,207</u> |
| Fund Balances | | | | | | |
| Nonspendable | 186,021 | 0 | 0 | 0 | 78,708 | 264,729 |
| Restricted | 0 | 1,826,257 | 0 | 174,388 | 1,121,499 | 3,122,144 |
| Assigned | 3,792,214 | 0 | 0 | 0 | 0 | 3,792,214 |
| Unassigned (Deficit) | 752,412 | 0 | (1,608,993) | 0 | (230,581) | (1,087,162) |
| Total Fund Balances | <u>4,730,647</u> | <u>1,826,257</u> | <u>(1,608,993)</u> | <u>174,388</u> | <u>969,626</u> | <u>6,091,925</u> |
| Total Liabilities, Deferred Inflows of Resources and Fund Balances | <u>\$17,371,332</u> | <u>\$2,136,624</u> | <u>\$770,535</u> | <u>\$1,856,534</u> | <u>\$3,259,365</u> | <u>\$25,394,390</u> |

See accompanying notes to the basic financial statements

City of Garfield Heights, Ohio
*Reconciliation of Total Governmental Fund Balances to
 Net Position of Governmental Activities
 December 31, 2015*

| | |
|--|---------------------------|
| Total Governmental Fund Balances | \$6,091,925 |
| <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. | 34,703,453 |
| Other long-term assets are not available to pay for current-period expenditures and therefore are reported as unavailable revenue in the funds: | |
| Delinquent Property Taxes | 3,633,631 |
| Municipal Income Taxes | 2,264,096 |
| Intergovernmental | 1,334,925 |
| Charges for Services | 902,073 |
| Special Assessments | <u>90,552</u> |
| Total | 8,225,277 |
| In the statement of activities, interest is accrued on outstanding bonds, whereas in governmental funds, an interest expenditure is reported when due. | (46,920) |
| Deferred charges on refunding related to the issuance of long-term refunding debt will be amortized over the life of the debt on the statement of net position. | 230,270 |
| The net pension liability is not due and payable in the current period; therefore, the liability and related deferred inflows/outflows are not reported in governmental funds: | |
| Deferred Outflows - Pension | 3,155,664 |
| Deferred Inflows - Pension | (89,782) |
| Net Pension Liability | <u>(23,410,174)</u> |
| Total | (20,344,292) |
| Long-term liabilities are not due and payable in the current period and therefore are not reported in the funds: | |
| General Obligation Bonds | (19,357,778) |
| Special Assessment Bonds | (90,552) |
| Compensated Absences | (4,179,150) |
| Claims Payable | (219,340) |
| Police and Fire Liability | (527,125) |
| Capital Leases | <u>(294,029)</u> |
| Total | <u>(24,667,974)</u> |
| <i>Net Position of Governmental Activities</i> | <u><u>\$4,191,739</u></u> |

See accompanying notes to the basic financial statements

City of Garfield Heights, Ohio
Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds
For the Year Ended December 31, 2015

| | General | Storm and Sewer | Street Improvement | Bond Retirement | Other Governmental Funds | Total Governmental Funds |
|---|--------------------|--------------------|-----------------------|--------------------|--------------------------------|--------------------------------|
| Revenues | | | | | | |
| Property Taxes | \$5,930,351 | \$0 | \$0 | \$1,036,241 | \$782,888 | \$7,749,480 |
| Municipal Income Taxes | 8,902,342 | 1,303,212 | 0 | 769,663 | 1,303,213 | 12,278,430 |
| Special Assessments | 0 | 0 | 0 | 124,543 | 0 | 124,543 |
| Charges for Services | 3,982,960 | 0 | 0 | 0 | 249,875 | 4,232,835 |
| Fees, Licenses and Permits | 375,377 | 0 | 0 | 0 | 0 | 375,377 |
| Fines and Forfeitures | 410,405 | 0 | 0 | 0 | 529,592 | 939,997 |
| Intergovernmental | 1,879,224 | 3,148,485 | 957,308 | 296,494 | 1,319,430 | 7,600,941 |
| Interest | 23,754 | 0 | 0 | 145 | 0 | 23,899 |
| Franchise Fees | 347,602 | 0 | 0 | 0 | 0 | 347,602 |
| Payments in Lieu of Taxes | 0 | 0 | 0 | 0 | 135,979 | 135,979 |
| Other | 750,891 | 1,387 | 63,510 | 0 | 258,455 | 1,074,243 |
| <i>Total Revenues</i> | <u>22,602,906</u> | <u>4,453,084</u> | <u>1,020,818</u> | <u>2,227,086</u> | <u>4,579,432</u> | <u>34,883,326</u> |
| Expenditures | | | | | | |
| Current: | | | | | | |
| General Government | 6,458,232 | 0 | 0 | 46,028 | 621,872 | 7,126,132 |
| Security of Persons and Property | 10,787,015 | 0 | 0 | 0 | 1,571,896 | 12,358,911 |
| Public Health Services | 499,131 | 0 | 0 | 0 | 0 | 499,131 |
| Transportation | 0 | 0 | 0 | 0 | 2,603,430 | 2,603,430 |
| Community Development | 295,574 | 0 | 0 | 0 | 6,058 | 301,632 |
| Basic Utility Services | 1,465,297 | 2,226,591 | 0 | 0 | 493,506 | 4,185,394 |
| Leisure Time Activities | 828,226 | 0 | 0 | 0 | 0 | 828,226 |
| Capital Outlay | 0 | 0 | 3,916,497 | 0 | 12,586 | 3,929,083 |
| Debt Service: | | | | | | |
| Principal Retirement | 0 | 0 | 0 | 2,334,000 | 138,869 | 2,472,869 |
| Interest and Fiscal Charges | 0 | 0 | 0 | 874,416 | 34,502 | 908,918 |
| <i>Total Expenditures</i> | <u>20,333,475</u> | <u>2,226,591</u> | <u>3,916,497</u> | <u>3,254,444</u> | <u>5,482,719</u> | <u>35,213,726</u> |
| <i>Excess of Revenues Over (Under) Expenditures</i> | <u>2,269,431</u> | <u>2,226,493</u> | <u>(2,895,679)</u> | <u>(1,027,358)</u> | <u>(903,287)</u> | <u>(330,400)</u> |
| Other Financing Sources (Uses) | | | | | | |
| Transfers In | 1,628 | 0 | 0 | 995,000 | 1,552,161 | 2,548,789 |
| Transfers Out | (1,451,369) | (550,000) | 0 | 0 | (547,420) | (2,548,789) |
| <i>Total Other Financing Sources (Uses)</i> | <u>(1,449,741)</u> | <u>(550,000)</u> | <u>0</u> | <u>995,000</u> | <u>1,004,741</u> | <u>0</u> |
| <i>Net Change in Fund Balances</i> | 819,690 | 1,676,493 | (2,895,679) | (32,358) | 101,454 | (330,400) |
| <i>Fund Balances Beginning of Year</i> | <u>3,910,957</u> | <u>149,764</u> | <u>1,286,686</u> | <u>206,746</u> | <u>868,172</u> | <u>6,422,325</u> |
| <i>Fund Balances End of Year</i> | <u>\$4,730,647</u> | <u>\$1,826,257</u> | <u>(\$1,608,993)</u> | <u>\$174,388</u> | <u>\$969,626</u> | <u>\$6,091,925</u> |

See accompanying notes to the basic financial statements

City of Garfield Heights, Ohio
*Reconciliation of the Statement of Revenues, Expenditures and Changes
in Fund Balances of Governmental Funds to the Statement of Activities
For the Year Ended December 31, 2015*

Net Change in Fund Balances - Total Governmental Funds (\$330,400)

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

Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which capital outlay exceeded depreciation in the current period:

| | |
|---------------------------|--------------------|
| Capital Assets Additions | 5,498,439 |
| Current Year Depreciation | <u>(2,424,217)</u> |

Total 3,074,222

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

| | |
|---------------------------|------------------|
| Delinquent Property Taxes | (478,595) |
| Municipal Income Taxes | 551,608 |
| Intergovernmental | (82,088) |
| Charges for Services | (169,073) |
| Special Assessments | <u>(100,156)</u> |

Total (278,304)

Contractually required contributions are reported as expenditures in governmental funds; however, the statement of net position reports these amounts as deferred outflows.

2,094,284

Except for amounts reported as deferred inflows/outflows, changes in the net pension liability are reported as pension expense in the statement of activities.

(2,340,958)

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.

2,472,869

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 | 4,999 |
| Amortization of Deferred Charge on Refunding | (21,072) |
| Amortization of Bond Discount | (1,417) |
| Amortization of Bond Premium | <u>18,660</u> |

Total 1,170

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 | (18,261) |
| Claims | <u>148,848</u> |

Total 130,587

Change in Net Position of Governmental Activities \$4,823,470

See accompanying notes to the basic financial statements

City of Garfield Heights, Ohio
Statement of Revenues, Expenditures and Changes
In Fund Balance - Budget (Non-GAAP Basis) and Actual
General Fund
For the Year Ended December 31, 2015

| | <u>Budgeted Amounts</u> | | | Variance with Final Budget Positive (Negative) |
|---|-------------------------|--------------------|--------------------|---|
| | <u>Original</u> | <u>Final</u> | <u>Actual</u> | |
| Revenues | | | | |
| Property Taxes | \$6,173,233 | \$6,173,233 | \$5,887,653 | (\$285,580) |
| Municipal Income Taxes | 7,388,250 | 7,388,250 | 8,297,336 | 909,086 |
| Charges for Services | 3,264,582 | 3,264,582 | 3,804,098 | 539,516 |
| Fees, Licenses and Permits | 338,315 | 338,315 | 394,226 | 55,911 |
| Fines and Forfeitures | 355,622 | 355,622 | 414,393 | 58,771 |
| Intergovernmental | 1,606,760 | 1,606,760 | 1,872,299 | 265,539 |
| Interest | 20,383 | 20,383 | 23,752 | 3,369 |
| Franchise Fees | 298,303 | 298,303 | 347,602 | 49,299 |
| Other | 539,789 | 539,790 | 620,074 | 80,284 |
| <i>Total Revenues</i> | <u>19,985,237</u> | <u>19,985,238</u> | <u>21,661,433</u> | <u>1,676,195</u> |
| Expenditures | | | | |
| Current: | | | | |
| General Government | 7,646,751 | 7,467,850 | 6,767,088 | 700,762 |
| Security of Persons and Property | 11,079,121 | 11,052,680 | 10,870,567 | 182,113 |
| Public Health Services | 203,020 | 203,740 | 200,837 | 2,903 |
| Community Development | 295,685 | 299,581 | 299,581 | 0 |
| Basic Utility Services | 1,650,000 | 1,625,000 | 1,586,497 | 38,503 |
| <i>Total Expenditures</i> | <u>20,874,577</u> | <u>20,648,851</u> | <u>19,724,570</u> | <u>924,281</u> |
| <i>Excess of Revenues Over (Under) Expenditures</i> | <u>(889,340)</u> | <u>(663,613)</u> | <u>1,936,863</u> | <u>2,600,476</u> |
| Other Financing Sources (Uses) | | | | |
| Transfers In | 0 | 0 | 1,628 | 1,628 |
| Transfers Out | (2,988,414) | (3,824,951) | (1,706,372) | 2,118,579 |
| <i>Total Other Financing Sources (Uses)</i> | <u>(2,988,414)</u> | <u>(3,824,951)</u> | <u>(1,704,744)</u> | <u>2,120,207</u> |
| <i>Net Change in Fund Balance</i> | (3,877,754) | (4,488,564) | 232,119 | 4,720,683 |
| <i>Fund Balance Beginning of Year</i> | 3,617,409 | 3,617,409 | 3,617,409 | 0 |
| Prior Year Encumbrances Appropriated | 450,654 | 450,654 | 450,654 | 0 |
| <i>Fund Balance (Deficit) End of Year</i> | <u>\$190,309</u> | <u>(\$420,501)</u> | <u>\$4,300,182</u> | <u>\$4,720,683</u> |

See accompanying notes to the basic financial statements

City of Garfield Heights, Ohio
Statement of Fiduciary Assets and Liabilities
Agency Funds
December 31, 2015

| | |
|--|---------------------------|
| Assets | |
| Equity in Pooled Cash and Cash Equivalents | \$1,342,433 |
| Cash and Cash Equivalents in Segregated Accounts | <u>371,344</u> |
| <i>Total Assets</i> | <u><u>\$1,713,777</u></u> |
| Liabilities | |
| Intergovernmental Payable | \$1,342,433 |
| Due to Others | <u>371,344</u> |
| <i>Total Liabilities</i> | <u><u>\$1,713,777</u></u> |

See accompanying notes to the basic financial statements

City of Garfield Heights, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2015

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).

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 reporting entity of the City does not include any 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 and the Jefferson Health Plan, an insurance purchasing pool. Information about these organizations is presented in Notes 16 and 17 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.

City of Garfield Heights, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2015

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.

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.

City of Garfield Heights, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2015

Storm and Sewer Capital Projects Fund This fund is used to account for and report restricted grant and loan monies to be used for storm and sewer capital construction and the acquisition of capital assets.

Street Improvement Capital Projects Fund This fund is used to account for and report restricted grant and loan monies to be used for street capital construction and the acquisition of capital assets.

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, 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, and monies from City of Cleveland held for waterline improvements.

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.

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.

City of Garfield Heights, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2015

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 8) 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. The deferred outflows of resources related to pension are explained in Note 18.

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, 2015, but which were levied to finance year 2016 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 taxes, income taxes, intergovernmental grants, charges for services and special assessments. These amounts are deferred and recognized as an inflow of resources in the period the amounts become available. The details of these unavailable revenues are identified on the Reconciliation of Total Governmental Fund Balance to Net Position of Governmental Activities found on page 19. Deferred inflows of resources related to pension are reported on the government-wide statement of net position. (See Note 18)

City of Garfield Heights, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2015

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.

Pensions

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the pension plans and additions to/deductions from their fiduciary net position have been determined on the same basis as they are reported by the pension systems. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. The pension systems report investments at fair value.

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 City records. Interest in the pool is presented as "equity in pooled cash and cash equivalents" on the financial statements.

The City utilizes a financial institution to service escrowed lease proceeds until payment is made in full. The balances in these accounts are presented in the statements as "cash and cash equivalents with fiscal agents".

City of Garfield Heights, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2015

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.

During 2015, the City invested in STAR Ohio. STAR Ohio is an investment pool managed by the State Treasurer's Office. STAR Ohio allows governments within the State to pool their funds for investment purposes. STAR Ohio is not registered with the SEC as an investment company, but does operate in a manner consistent with Rule 2a7 of the Investments Company Act of 1940. Investments in STAR Ohio are valued at STAR Ohio's net asset value per share, which is the price the investment could be sold for on December 31, 2015.

Investment procedures are restricted by the provisions of the Ohio Revised Code. Interest revenue credited to the general fund during 2015 amounted to \$23,754, which includes \$10,139 assigned from other City funds.

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, 2015 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.

Restricted Assets

Assets are reported as restricted when limitations on their use change in nature or normal understanding of the availability of the asset. Such constraints are either externally imposed by creditors, contributors, grantors, or laws or other governments or imposed by law through constitutional provisions or enabling legislation. Restricted assets in the general fund represent money set aside for unclaimed monies.

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.

City of Garfield Heights, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2015

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, sidewalks and trails, sanitary sewers and storm sewers and includes infrastructure acquired prior to December 31, 1980.

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.

City of Garfield Heights, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2015

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 formal action (ordinance 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 (ordinance or resolution) 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. State statute authorizes the Finance Director to assign fund balance for purchases on order provided such amounts have been lawfully appropriated. Council assigned fund balance to cover a gap between estimated revenue and appropriations in 2015’s appropriated budget and for the recreation and nutrition programs.

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.

City of Garfield Heights, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2015

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 includes resources restricted for law enforcement and education, community development and street repair and maintenance.

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.

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 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.

City of Garfield Heights, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2015

Note 3 - 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. 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 | \$819,690 |
| Net Adjustment for Revenue Accruals | 1,081,426 |
| Perspective Difference: | |
| Recreation | (125,459) |
| Federal Nutrition | (7,051) |
| Net Adjustment for Expenditure Accruals | (1,166,507) |
| Encumbrances | <u>(369,980)</u> |
| Budget Basis | <u><u>\$232,119</u></u> |

Note 4 - 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 as follows:

City of Garfield Heights, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2015

| Fund Balances | General | Storm and Sewer | Street Improvement | Bond Retirement | Other Governmental Funds | Total |
|------------------------------------|--------------------|--------------------|-----------------------|--------------------|--------------------------------|--------------------|
| <i>Nonspendable</i> | | | | | | |
| Prepaid Items | \$11,059 | \$0 | \$0 | \$0 | \$1,236 | \$12,295 |
| Materials and Supplies Inventory | 42,785 | 0 | 0 | 0 | 77,472 | 120,257 |
| Unclaimed Monies | 132,177 | 0 | 0 | 0 | 0 | 132,177 |
| <i>Total Nonspendable</i> | 186,021 | 0 | 0 | 0 | 78,708 | 264,729 |
| <i>Restricted for</i> | | | | | | |
| Municipal Court | 0 | 0 | 0 | 0 | 163,220 | 163,220 |
| Public Safety | 0 | 0 | 0 | 0 | 348,738 | 348,738 |
| Street Maintenance | 0 | 0 | 0 | 0 | 455,095 | 455,095 |
| Community Development | 0 | 0 | 0 | 0 | 6,441 | 6,441 |
| Debt Service Payments | 0 | 0 | 0 | 174,388 | 0 | 174,388 |
| Capital Improvements | 0 | 1,826,257 | 0 | 0 | 148,005 | 1,974,262 |
| <i>Total Restricted</i> | 0 | 1,826,257 | 0 | 174,388 | 1,121,499 | 3,122,144 |
| <i>Assigned to</i> | | | | | | |
| Recreation and Nutrition Programs | 260,731 | 0 | 0 | 0 | 0 | 260,731 |
| Purchases on Order | 107,953 | 0 | 0 | 0 | 0 | 107,953 |
| 2016 Appropriations | 3,423,530 | 0 | 0 | 0 | 0 | 3,423,530 |
| <i>Total Assigned</i> | 3,792,214 | 0 | 0 | 0 | 0 | 3,792,214 |
| <i>Unassigned (Deficit)</i> | 752,412 | 0 | (1,608,993) | 0 | (230,581) | (1,087,162) |
| <i>Total Fund Balances</i> | \$4,730,647 | \$1,826,257 | (\$1,608,993) | \$174,388 | \$969,626 | \$6,091,925 |

Note 5 – Accountability and Compliance

Accountability

The following funds had deficit fund balances as of December 31, 2015:

Special Revenue Funds

| | |
|------------------|----------|
| Police Pension | \$55,965 |
| Fire Pension | 58,998 |
| Family Resources | 3,593 |

Capital Projects Fund

| | |
|-----------------------|-----------|
| Permanent Improvement | 112,025 |
| Street Improvement | 1,608,993 |

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.

City of Garfield Heights, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2015

Compliance

The following funds had original appropriations in excess of estimated resources plus carryover balances contrary to Section 5705.39, Ohio Revised Code:

| Fund | Excess |
|---------------------------------|-------------|
| Nonmajor Special Revenue Funds: | |
| Street Lighting Fund | \$ (34,374) |
| Police Pension Fund | (2,525) |
| Fire Pension Fund | (50,679) |
| GH Family Resource Fund | (69,366) |
| Major Capital Projects Fund: | |
| Storm and Sewer Fund | (3,239,016) |
| Street Improvement Fund | (1,259,132) |

The following funds had final appropriations in excess of estimated resources plus carryover balances in violation of section 5705.39, Ohio Revised:

| Fund | Excess |
|---|--------------|
| Major Funds: | |
| General Fund | \$ (420,501) |
| Storm and Sewer Fund | (3,426,124) |
| Street Improvement Fund | (3,270,992) |
| Nonmajor Special Revenue Funds: | |
| Street Lighting Fund | (76,974) |
| Police Pension Fund | (34,927) |
| Fire Pension Fund | (50,679) |
| Street, Construction, Maintenance and Repair Fund | (26,359) |
| GH Family Resource Fund | (80,666) |

Note 6 - 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.

City of Garfield Heights, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2015

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 and Government National Mortgage Association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;
3. No-load money market mutual funds consisting exclusively of obligations described in division (1) or (2) and repurchase agreements secured by such obligations provided that investments in securities described in this division are made only through eligible institutions;
4. Time certificates of deposit or savings or deposit accounts including, but not limited to, passbook accounts;
5. Bonds and other obligations of the State of Ohio and with certain limitations bonds and other obligations of political subdivisions of the State of Ohio;
6. The State Treasurer's investment pool (STAR Ohio);
7. Certain commercial paper notes and bankers' acceptances for a period not to exceed one hundred eighty days in an amount not to exceed 40 percent of the interim monies available for investment at any one time if training requirements have been met; and
8. Written repurchase agreements in the securities described in (1) or (2) provided the market value of the securities subject to the repurchase agreement must exceed the principal value of the agreement by at least two percent and be marked to market daily, and the term of the agreement must not exceed thirty days.

The City has passed an ordinance allowing the City to invest monies not required to be used for a 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.

City of Garfield Heights, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2015

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

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

Deposits

Custodial Credit Risk Custodial credit risk for deposits is the risk that in the event of bank failure, the City will not be able to recover deposits or collateral securities that are in possession of an outside party. At year end, \$1,696,187 of the City's bank balance of \$10,754,597 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.

Investments

At December 31, 2015, the City had \$1,210,874 invested in STAR Ohio with an average maturity of 49.4 days.

Credit Risk Ohio law requires that STAR Ohio maintain the highest rating provided by at least one nationally recognized standard rating service. The City has no investment policy that addresses credit risk.

Note 7 - Contingencies

Grants

The City receives financial assistance from federal and state agencies in the form of grants. The disbursements of funds received under these programs generally require compliance with terms and conditions specified in the grant agreements and are subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the general fund or other applicable funds. However, in the opinion of management, any such disallowed claims will not have a material effect on the overall financial position of the City at December 31, 2015.

Litigation

The City is a party to legal proceedings seeking recovery and damages related to the construction of the City View Center shopping plaza. While it is not possible at this time to predict the final outcome of the case, the City intends to vigorously defend itself. Furthermore, if the final outcome were unfavorable to the City, it is unable to predict a range of potential loss at this time.

City of Garfield Heights, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2015

Note 8 – Receivables

Receivables at December 31, 2015 consisted primarily of municipal income taxes, property taxes, payments in lieu of taxes, accounts, intergovernmental and special assessments.

No allowances for doubtful accounts have been recorded as uncollectible amounts are expected to be insignificant. All receivables except property taxes 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.

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 2015 for real and public utility property taxes represents collections of the 2014 taxes. Property tax payments received during 2015 for tangible personal property (other than public utility property) are for 2015 taxes.

2015 real property taxes are levied after October 1, 2015, on the assessed value as of January 1, 2015, the lien date. Assessed values are established by State law at 35 percent of appraised market value. 2015 real property taxes are collected in and intended to finance 2016.

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. 2015 public utility property taxes which became a lien December 31, 2014, are levied after October 1, 2015, and are collected in 2016 with real property taxes.

The full tax rate for all City operations for the year ended December 31, 2015, was \$27.20 per \$1,000 of assessed value. The assessed values of real and tangible personal property upon which 2015 property tax receipts were based as follows:

| | Assessed Valuation |
|--------------------------------------|-----------------------|
| Real Estate | |
| Residential/Agriculture | \$264,039,390 |
| Commercial Industrial/Public Utility | 86,820,450 |
| Tangible Personal Property | |
| Public Utility | 11,895,130 |
| Total | \$362,754,970 |

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, 2015 and for which there is an enforceable legal claim. In governmental funds, the portion of the receivable not levied to finance 2015 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.

City of Garfield Heights, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2015

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 Cleveland 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:

| | Amount |
|--|--------------------|
| Homestead and Rollback | \$668,066 |
| Local Government | 383,616 |
| Gas Tax | 374,020 |
| Garfield Heights Municipal Court | 171,413 |
| Motor Vehicle License | 92,609 |
| Permissive Tax | 83,178 |
| CAT Tax | 60,958 |
| Grants | 10,974 |
| <i>Total Intergovernmental Receivables</i> | <i>\$1,844,834</i> |

Note 9 – Interfund Transfers

| Transfer To | Transfer From | | | Totals |
|--------------------------|---------------|--------------------|--------------------------------|-------------|
| | General | Storm and Sewer | Other Governmental Funds | |
| General | \$0 | \$0 | \$1,628 | \$1,628 |
| Bond Retirement | 0 | 550,000 | 445,000 | 995,000 |
| Other Governmental Funds | 1,451,369 | 0 | 100,792 | 1,552,161 |
| Totals | \$1,451,369 | \$550,000 | \$547,420 | \$2,548,789 |

City of Garfield Heights, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2015

During 2015, the general fund transferred out \$1,451,369 to various other governmental funds. The general fund transfers to the police and fire pension special revenue funds of \$676,901 and \$670,859, respectively, were made because the property tax received by those funds are not enough to meet the annual liability and payment to the police and fire pension systems. The police and fire pension special revenue funds were set up to correctly identify a small percentage of the property tax revenues that were earmarked inside millage for the payment of pension amounts for the City's police and fire safety officers. After these tax revenues are received from the County through the property tax distributions, any remaining balance needed to pay the pension payments is transferred to these funds from the general fund. The general fund transfer to the street lighting and Garfield Heights family resource center special revenue funds of \$39,230 and \$64,379, respectively, were to provide additional resources for current operations.

The bond retirement debt service fund received transfers of \$100,000 from the street construction maintenance and repair special revenue fund, \$160,000 from the motor vehicle license tax special revenue fund, as well as \$550,000 from the storm and sewer and \$185,000 from the permanent improvement capital projects funds to support payments on long-term debt.

The street construction maintenance and repair special revenue fund transferred \$100,792 to the street lighting special revenue fund to provide additional resources for current operations.

The municipal court special projects special revenue fund transferred \$1,628 to the general fund for reimbursement of program expenditures.

Note 10 - Capital Assets

Capital asset activity for the year ended December 31, 2015, was as follows:

| | Balance 12/31/14 | Additions | Deductions | Balance 12/31/15 |
|--|---------------------|--------------------|--------------------|---------------------|
| Governmental Activities | | | | |
| <i>Capital Assets, Not Being Depreciated</i> | | | | |
| Land | \$1,670,555 | \$256,557 | \$0 | \$1,927,112 |
| Construction in Progress | 982,749 | 190,004 | (1,172,753) | 0 |
| <i>Total Capital Assets, Not Being Depreciated</i> | <u>2,653,304</u> | <u>446,561</u> | <u>(1,172,753)</u> | <u>1,927,112</u> |
| <i>Capital Assets, Being Depreciated</i> | | | | |
| Buildings | 15,619,214 | 126,900 | 0 | 15,746,114 |
| Improvements Other than Buildings | 4,503,398 | 163,122 | 0 | 4,666,520 |
| Vehicles | 5,850,306 | 9,253 | 0 | 5,859,559 |
| Machinery and Equipment | 5,855,094 | 107,565 | (24,706) | 5,937,953 |
| Furniture and Fixtures | 754,568 | 21,998 | 0 | 776,566 |
| Infrastructure | | | | |
| Roads | 29,652,567 | 5,395,793 | 0 | 35,048,360 |
| Sidewalks and Trails | 150,000 | 0 | 0 | 150,000 |
| Sanitary Sewers | 4,520,055 | 0 | 0 | 4,520,055 |
| Storm Sewers | 1,965,471 | 400,000 | 0 | 2,365,471 |
| <i>Total Capital Assets, Being Depreciated</i> | <u>\$68,870,673</u> | <u>\$6,224,631</u> | <u>(\$24,706)</u> | <u>\$75,070,598</u> |

City of Garfield Heights, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2015

| | Balance 12/31/14 | Additions | Deductions | Balance 12/31/15 |
|--|----------------------------|---------------------------|-----------------------------|----------------------------|
| Governmental Activities (continued) | | | | |
| <i>Less Accumulated Depreciation</i> | | | | |
| Buildings | (\$7,040,817) | (\$329,306) | \$0 | (\$7,370,123) |
| Improvements Other than Buildings | (2,760,221) | (120,079) | 0 | (2,880,300) |
| Vehicles | (4,575,891) | (211,564) | 0 | (4,787,455) |
| Machinery and Equipment | (4,406,205) | (210,894) | 24,706 | (4,592,393) |
| Furniture and Fixtures | (615,495) | (16,030) | 0 | (631,525) |
| Infrastructure | | | | |
| Roads | (18,469,133) | (1,395,134) | 0 | (19,864,267) |
| Sidewalks and Trails | (11,250) | (7,500) | 0 | (18,750) |
| Sanitary Sewers | (1,402,182) | (90,401) | 0 | (1,492,583) |
| Storm Sewers | (613,552) | (43,309) | 0 | (656,861) |
| <i>Total Accumulated Depreciation</i> | <u>(39,894,746)</u> | <u>(2,424,217)</u> | <u>24,706</u> | <u>(42,294,257)</u> |
| <i>Total Capital Assets</i> | | | | |
| <i>being Depreciated, Net</i> | <u>28,975,927</u> | <u>3,800,414</u> | <u>0</u> | <u>32,776,341</u> |
| <i>Capital Assets, Net</i> | <u><u>\$31,629,231</u></u> | <u><u>\$4,246,975</u></u> | <u><u>(\$1,172,753)</u></u> | <u><u>\$34,703,453</u></u> |

Depreciation expense was charged to governmental functions as follows:

| | |
|----------------------------------|---------------------------|
| General Government | \$389,452 |
| Security of Persons and Property | 348,623 |
| Public Health Services | 36,736 |
| Transportation | 1,403,567 |
| Basic Utility Services | 152,190 |
| Leisure Time Activities | 93,649 |
| Total Depreciation Expense | <u><u>\$2,424,217</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 and AFSCME 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.

City of Garfield Heights, Ohio
Notes to the Basic Financial Statements
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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.

Note 12 - Risk Management

The City is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During 2015, the City contracted with Ohio Plan Risk Management Inc. for various types of insurance as follows:

| Type | Coverage | Per Occurrence |
|---------------------------------|--------------|----------------|
| Property | \$34,971,393 | |
| Inland Marine | 2,473,367 | |
| 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.

For 2015, the City participated in the Jefferson Health Plan, an insurance purchasing pool. Each participant enters into an individual agreement with the Plan for insurance coverage and pays annual premiums to the Plan based on the types and limits of coverage and deductibles selected by the participant.

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. The City's third party administrator Meritain Health reviews all claims which are then paid by the City. An excess coverage insurance (stop-loss) policy covers claims in excess of \$100,000 per employee. The benefit is paid by the fund that pays the salary for the employee and is based on number of covered employees in the respective fund.

A health benefit claims liability of \$178,349 has been accrued in the general fund, street maintenance and repair, state highway, municipal court special projects and family resource center special revenue funds and storm and sewer and municipal court improvement capital projects funds based on an estimate by the third party administrator. The liability reported at December 31, 2015 is based on the requirements of Governmental Accounting Standards Board Statement No. 30, which requires that a liability for unpaid claims costs, including estimates of costs relating to incurred but not reported claims, be reported. The estimate was not affected by incremental claim adjustment expenses and does not include other allocated or unallocated claim adjustment expense.

City of Garfield Heights, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2015

The City participates in the State Workers' Compensation retrospective rating and payment system. Once the City receives notice of the 2014 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 2015. The minimum premium portion of intergovernmental payable is \$202,008 and the actual claim costs are \$16,471. The maintenance of these benefits is accounted for in the general fund. Incurred but not reported claims and premium of \$368,188 have been accrued as a liability at December 31, 2015 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 2014 and 2015 were:

| | Balance Beginning of Year | Current Year Claims | Claim Payments | Change in Estimate | Balance at End of Year |
|------|------------------------------|------------------------|-------------------|-----------------------|---------------------------|
| 2014 | \$1,043,088 | \$2,071,420 | \$2,537,182 | \$97,448 | \$674,774 |
| 2015 | 674,774 | 2,006,873 | 2,206,937 | (77,021) | 397,689 |

Note 13 – Short-Term Obligations

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

| | Balance 12/31/14 | Additions | Reductions | Balance 12/31/15 |
|---|---------------------|-------------|------------|---------------------|
| 2015 SO Income Tax Street Improvement Notes | \$0 | \$2,000,000 | \$0 | \$2,000,000 |
| Unamortized Premium | 0 | 11,860 | 5,930 | 5,930 |
| <i>Total Short-Term Obligations</i> | \$0 | \$2,011,860 | \$5,930 | \$2,005,930 |

On June 23, 2015, the City issued \$2,000,000 in special obligation income tax street improvement notes for street improvement capital projects. These notes were issued at a premium of \$11,860. The note was issued at a 1.5 percent interest rate and matures on June 22, 2016. Principal and interest requirements to retire the special obligation income tax street improvement note at December 31, 2015 are \$2,000,000 and \$29,917.

City of Garfield Heights, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2015

Note 14 - Long-Term Obligations

Changes in long-term obligations of the City during the year ended December 31, 2015 were as follows:

| | Outstanding 12/31/2014 | Additions | Reductions | Outstanding 12/31/2015 | Amounts Due in One Year |
|--|---------------------------|--------------------|----------------------|---------------------------|----------------------------|
| Governmental Activities | | | | | |
| General Obligation Bonds | | | | | |
| 2004 4.75% \$9,900,000 | | | | | |
| Various Improvements | \$6,548,000 | \$0 | (\$519,000) | \$6,029,000 | \$546,000 |
| 2006 4.00% \$2,307,466 | | | | | |
| Various Purpose Refunding Bonds | 504,292 | 0 | (264,844) | 239,448 | 239,448 |
| Unamortized Premium | 18,492 | 0 | (2,314) | 16,178 | 0 |
| 2006 4.00% \$2,790,000 | | | | | |
| Street Improvement | 1,715,000 | 0 | (185,000) | 1,530,000 | 190,000 |
| Unamortized Premium | 23,374 | 0 | (2,924) | 20,450 | 0 |
| 2010 3.00% Various Improvement | | | | | |
| Serial Bonds | 1,310,000 | 0 | 0 | 1,310,000 | 0 |
| Term Bonds | 5,915,000 | 0 | (910,000) | 5,005,000 | 950,000 |
| Unamortized Premium | 141,387 | 0 | (10,092) | 131,295 | 0 |
| 2012 3.00% \$5,775,000 | | | | | |
| Various Purpose Improvement | | | | | |
| Refunding Bonds | | | | | |
| Serial Bonds | 3,075,000 | 0 | (355,000) | 2,720,000 | 365,000 |
| Term Bonds | 2,350,000 | 0 | 0 | 2,350,000 | 0 |
| Unamortized Discount | (18,303) | 0 | 1,417 | (16,886) | 0 |
| <i>Total General Obligation Bonds</i> | <u>21,582,242</u> | <u>0</u> | <u>(2,247,757)</u> | <u>19,334,485</u> | <u>2,290,448</u> |
| Special Assessment Bonds | | | | | |
| 2006 4.00% \$872,534 | | | | | |
| Various Purpose Refunding Bonds | 190,708 | 0 | (100,156) | 90,552 | 90,552 |
| Unamortized Premium | 26,623 | 0 | (3,330) | 23,293 | 0 |
| <i>Total Special Assessment Bonds</i> | <u>217,331</u> | <u>0</u> | <u>(103,486)</u> | <u>113,845</u> | <u>90,552</u> |
| Other Long-Term Liabilities | | | | | |
| Net Pension Liability | | | | | |
| OPERS | 4,995,107 | 115,430 | 0 | 5,110,537 | 0 |
| OP&F | 17,204,208 | 1,095,429 | 0 | 18,299,637 | 0 |
| Total Net Pension Liability | 22,199,315 | 1,210,859 | 0 | 23,410,174 | 0 |
| Compensated Absences Payable | 4,160,889 | 219,198 | (200,937) | 4,179,150 | 266,146 |
| Worker's Compensation Claims Payable | 368,188 | 53,160 | (202,008) | 219,340 | 218,018 |
| Police and Fire Pension Liability | 544,268 | 0 | (17,143) | 527,125 | 17,880 |
| Capital Leases Payable | 415,755 | 0 | (121,726) | 294,029 | 125,404 |
| <i>Total Other Long-Term Liabilities</i> | <u>27,688,415</u> | <u>1,483,217</u> | <u>(541,814)</u> | <u>28,629,818</u> | <u>627,448</u> |
| <i>Total Governmental Activities</i> | <u>\$49,487,988</u> | <u>\$1,483,217</u> | <u>(\$2,893,057)</u> | <u>\$48,078,148</u> | <u>\$3,008,448</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, street, construction, maintenance and repair, state highway, municipal court special projects and family resource center special revenue funds and the storm and sewer and municipal court improvement capital projects funds. The police and fire pension liability will be paid from taxes received in the police and fire pension special revenue funds. This

City of Garfield Heights, Ohio
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For the Year Ended December 31, 2015

includes an accrued liability incurred when the State of Ohio established the statewide pension system for police and firefighters. The City pays obligations related to employee compensation from the fund benefitting from their service.

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. 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:

| Year | Issue |
|---------------------------------------|------------------|
| | \$2,350,000 |
| 2023 | \$430,000 |
| 2024 | 450,000 |
| 2025 | 470,000 |
| 2026 | 490,000 |
| Total mandatory sinking fund payments | 1,840,000 |
| Amount due at stated maturity | 510,000 |
| Total | \$2,350,000 |
| <i>Stated Maturity</i> | <i>12/1/2027</i> |

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

The term bonds maturing on December 1, 2016, 2020, 2025 and 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 | Issue | Issue | Issue | Issue |
|---------------------------------------|------------------|------------------|------------------|------------------|
| | \$5,260,000 | \$725,000 | \$2,130,000 | \$1,200,000 |
| 2019 | \$0 | \$355,000 | \$0 | \$0 |
| 2021 | 0 | 0 | 385,000 | 0 |
| 2022 | 0 | 0 | 405,000 | 0 |
| 2023 | 0 | 0 | 425,000 | 0 |
| 2024 | 0 | 0 | 445,000 | 0 |
| 2026 | 0 | 0 | 0 | 380,000 |
| 2027 | 0 | 0 | 0 | 400,000 |
| Total mandatory sinking fund payments | 0 | 355,000 | 1,660,000 | 780,000 |
| Amount due at stated maturity | 950,000 | 370,000 | 470,000 | 420,000 |
| Total | \$950,000 | \$725,000 | \$2,130,000 | \$1,200,000 |
| <i>Stated Maturity</i> | <i>12/1/2016</i> | <i>12/1/2020</i> | <i>12/1/2025</i> | <i>12/1/2028</i> |

City of Garfield Heights, Ohio
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The City's overall legal debt margin was \$19,080,212 at December 31, 2015. Principal and interest requirements to retire long-term obligations outstanding at December 31, 2015 are as follows:

| | General Obligation Bonds | | Special Assessment Bonds | | Police and Fire Pension | |
|-----------|-----------------------------|--------------------|-----------------------------|----------------|----------------------------|------------------|
| | Principal | Interest | Principal | Interest | Principal | Interest |
| 2016 | \$2,290,448 | \$785,550 | \$90,552 | \$3,622 | \$17,880 | \$22,927 |
| 2017 | 1,798,000 | 705,996 | 0 | 0 | 18,647 | 21,447 |
| 2018 | 1,852,000 | 640,529 | 0 | 0 | 19,448 | 20,646 |
| 2019 | 1,588,000 | 569,370 | 0 | 0 | 20,283 | 19,811 |
| 2020 | 1,655,000 | 505,157 | 0 | 0 | 21,155 | 18,939 |
| 2021-2025 | 7,800,000 | 1,433,312 | 0 | 0 | 120,210 | 80,262 |
| 2026-2030 | 2,200,000 | 185,650 | 0 | 0 | 148,339 | 52,133 |
| 2031-2035 | 0 | 0 | 0 | 0 | 161,163 | 17,455 |
| Totals | <u>\$19,183,448</u> | <u>\$4,825,564</u> | <u>\$90,552</u> | <u>\$3,622</u> | <u>\$527,125</u> | <u>\$253,620</u> |

Note 15 - Capital Leases - Lessee Disclosure

In prior years, the City entered into lease agreements for a phone system, a front end loader and police vehicles. The leases meet the criteria of a capital lease. Capital lease payments are reflected as debt service expenditures on the statement of revenues, expenditures, and changes in fund balance for governmental funds. The leases are secured by the related property.

Capital assets acquired by lease currently being paid have been capitalized and depreciated as follows as of December 31, 2015:

| | Amounts |
|-------------------------------|------------------|
| Vehicles | \$299,616 |
| Machinery and Equipment | 208,245 |
| Less Accumulated Depreciation | (67,074) |
| Current Book Value | <u>\$440,787</u> |

The following is a schedule of the future minimum lease payments required under the capital lease and the present value of the minimum lease payments as of December 31, 2015.

| | Governmental Activities |
|---|----------------------------|
| 2016 | \$133,289 |
| 2017 | 133,289 |
| 2018 | 40,024 |
| Total Mimimum Lease Payments | <u>306,602</u> |
| Less: Amount representing interest | (12,573) |
| Present Value of Mimimum Lease Payments | <u>\$294,029</u> |

City of Garfield Heights, Ohio
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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 2015. Financial information can be obtained by contacting Joseph Migliorini, the Board Chairman, at 175 South Main Street, Akron, Ohio 44308 or at the website www.nopecinfo.org.

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

The Council is governed by an Assembly made up of one representative from each member community. The representatives then elect the Governing Board made up of a Chair, Vice Chair and other members elected in annual elections. The Board oversees and manages the Council. The degree of control exercised by any participating government is limited to its representation in the Assembly and on the Board. During 2015, 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 – Insurance Purchasing Plan

The City participates in the Jefferson Health Plan (Plan), a risk-sharing, claims servicing, and insurance purchasing pool, including two insurance consortiums. Each participant appoints a member of the insurance plan's assembly. The Plan's business and affairs are conducted by a nine member Board of Directors elected from the assembly. The Plan offers medical, dental, and prescription drug coverage to the members on a self-insured basis, as well as the opportunity to participate in the group purchasing of life insurance coverage. The medical coverage plan provides each plan participant the opportunity to choose a self-insurance deductible limit which can range from \$35,000 to \$100,000, under which the individual member is responsible for all claims through the claims servicing pool. Plan participants also participate in a shared risk internal pool for individual claims between the self-insurance deductible limit and \$500,000, and all claims between the deductible limit and the \$500,000 are paid from the internal shared risk pool. The internal pool is not owned by the plan's participants. All participants pay a premium rate that is actuarially calculated based on the participant's actual claims experience which are utilized for the payment of claims within the claims servicing pool up to the self-insurance deductible limit; and for this portion of the plan, all plan

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participants retain their own risk. All participants pay an additional fee for participation in the internal pool that is based on the claims of the internal pool in aggregate and is not based on individual claims experience. In the event of a deficiency in the internal pool, participants would be charged a higher rate for participation, and in the event of a surplus, the internal pool pays dividends to the participants. For all individual claims exceeding \$500,000, stop loss coverage is purchased, as well as from an annual total plan aggregate claims amount. All plan participants also pay a monthly administrative fee for fiscal services and third party administrative services.

Note 18 - Defined Benefit Pension Plans

Net Pension Liability

The net pension liability reported on the statement of net position represents a liability to employees for pensions. Pensions are a component of exchange transactions—between an employer and its employees—of salaries and benefits for employee services. Pensions are provided to an employee—on a deferred-payment basis—as part of the total compensation package offered by an employer for employee services each financial period. The obligation to sacrifice resources for pensions is a present obligation because it was created as a result of employment exchanges that already have occurred.

The net pension liability represents the City’s proportionate share of each pension plan’s collective actuarial present value of projected benefit payments attributable to past periods of service, net of each pension plan’s fiduciary net position. The net pension liability calculation is dependent on critical long-term variables, including estimated average life expectancies, earnings on investments, cost of living adjustments and others. While these estimates use the best information available, unknowable future events require adjusting this estimate annually.

Ohio Revised Code limits the City’s obligation for this liability to annually required payments. The City cannot control benefit terms or the manner in which pensions are financed; however, the City does receive the benefit of employees’ services in exchange for compensation including pension.

GASB 68 assumes the liability is solely the obligation of the employer, because (1) they benefit from employee services; and (2) State statute requires all funding to come from these employers. All contributions to date have come solely from these employers (which also includes costs paid in the form of withholdings from employees). State statute requires the pension plans to amortize unfunded liabilities within 30 years. If the amortization period exceeds 30 years, each pension plan’s board must propose corrective action to the State legislature. Any resulting legislative change to benefits or funding could significantly affect the net pension liability. Resulting adjustments to the net pension liability would be effective when the changes are legally enforceable.

The proportionate share of each plan’s unfunded benefits is presented as a long-term net pension liability on the accrual basis of accounting. Any liability for the contractually-required pension contribution outstanding at the end of the year is included in intergovernmental payable on both the accrual and modified accrual bases of accounting.

Plan Description – Ohio Public Employees Retirement System (OPERS)

Plan Description - City employees, other than full-time police and firefighters, participate 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 and the combined plan is a cost-sharing, multiple-employer defined benefit

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pension plan with defined contribution features. While members (e.g. City employees) may elect the member-directed plan and the combined plan, substantially all employee members are in OPERS' traditional plan; therefore, the following disclosure focuses on the traditional pension plan.

OPERS provides retirement, disability, survivor and death benefits, and annual cost of living adjustments to members of the traditional plan. Authority to establish and amend benefits is provided by Chapter 145 of the Ohio Revised Code. OPERS issues a stand-alone financial report that includes financial statements, required supplementary information and detailed information about OPERS' fiduciary net position that may be obtained by visiting <https://www.opers.org/financial/reports.shtml>, by writing to the Ohio Public Employees Retirement System, 277 East Town Street, Columbus, Ohio 43215-4642, or by calling 800-222-7377.

Senate Bill (SB) 343 was enacted into law with an effective date of January 7, 2013. In the legislation, members were categorized into three groups with varying provisions of the law applicable to each group. The following table provides age and service requirements for retirement and the retirement formula applied to final average salary (FAS) for the three member groups under the traditional plan as per the reduced benefits adopted by SB 343 (see OPERS CAFR referenced above for additional information):

| Group A | Group B | Group C |
|---|---|---|
| Eligible to retire prior to January 7, 2013 or five years after January 7, 2013 | 20 years of service credit prior to January 7, 2013 or eligible to retire ten years after January 7, 2013 | Members not in other Groups and members hired on or after January 7, 2013 |
| State and Local | State and Local | State and Local |
| Age and Service Requirements: Age 60 with 60 months of service credit or Age 55 with 25 years of service credit | Age and Service Requirements: Age 60 with 60 months of service credit or Age 55 with 25 years of service credit | Age and Service Requirements: Age 57 with 25 years of service credit or Age 62 with 5 years of service credit |
| Formula: 2.2% of FAS multiplied by years of service for the first 30 years and 2.5% for service years in excess of 30 | Formula: 2.2% of FAS multiplied by years of service for the first 30 years and 2.5% for service years in excess of 30 | Formula: 2.2% of FAS multiplied by years of service for the first 35 years and 2.5% for service years in excess of 35 |

Final average Salary (FAS) represents the average of the three highest years of earnings over a member's career for Groups A and B. Group C is based on the average of the five highest years of earnings over a member's career.

Members who retire before meeting the age and years of service credit requirement for unreduced benefits receive a percentage reduction in the benefit amount.

When a benefit recipient has received benefits for 12 months, an annual cost of living adjustment (COLA) is provided. This COLA is calculated on the base retirement benefit at the date of retirement and is not compounded. For those retiring prior to January 7, 2013, the COLA will continue to be a 3 percent simple annual COLA. For those retiring subsequent to January 7, 2013, beginning in calendar year 2019, the COLA will be based on the average percentage increase in the Consumer Price Index, capped at 3 percent.

Funding Policy - The Ohio Revised Code (ORC) provides statutory authority for member and employer contributions as follows:

City of Garfield Heights, Ohio
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| | State and Local |
|--|--------------------|
| 2015 Statutory Maximum Contribution Rates | |
| Employer | 14.0 % |
| Employee | 10.0 % |
| 2015 Actual Contribution Rates | |
| Employer: | |
| Pension | 12.0 % |
| Post-employment Health Care Benefits | 2.0 |
| Total Employer | 14.0 % |
| Employee | 10.0 % |

Employer contribution rates are actuarially determined and are expressed as a percentage of covered payroll.

The City's contractually required contribution was \$596,253 for 2015. Of this amount, \$92,208 is reported as an intergovernmental payable.

Plan Description – Ohio Police & Fire Pension Fund (OPF)

Plan Description - City full-time police and firefighters participate in Ohio Police and Fire Pension Fund (OPF), a cost-sharing, multiple-employer defined benefit pension plan administered by OPF. OPF provides retirement and disability pension 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. OPF issues a publicly available financial report that includes financial information and required supplementary information and detailed information about OPF fiduciary net position. The report that may be obtained by visiting the OPF website at www.op-f.org or by writing to the Ohio Police and Fire Pension Fund, 140 East Town Street, Columbus, Ohio 43215-5164.

Upon attaining a qualifying age with sufficient years of service, a member of OPF may retire and receive a lifetime monthly pension. OPF offers four types of service retirement: normal, service commuted, age/service commuted and actuarially reduced. Each type has different eligibility guidelines and is calculated using the member's average annual salary. The following discussion of the pension formula relates to normal service retirement.

For members hired after July 1, 2013, the minimum retirement age is 52 for normal service retirement with at least 25 years of service credit. For members hired on or before after July 1, 2013, the minimum retirement age is 48 for normal service retirement with at least 25 years of service credit.

The annual pension benefit for normal service retirement is equal to a percentage of the allowable average annual salary. The percentage equals 2.5 percent for each of the first 20 years of service credit, 2.0 percent for each of the next five years of service credit and 1.5 percent for each year of service credit in excess of 25 years. The maximum pension of 72 percent of the allowable average annual salary is paid after 33 years of service credit.

Under normal service retirement, retired members who are at least 55 years old and have been receiving OPF benefits for at least one year may be eligible for a cost-of-living allowance adjustment. The age 55 provision for receiving a COLA does not apply to those who are receiving a permanent and total disability benefit and statutory survivors.

City of Garfield Heights, Ohio
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Members retiring under normal service retirement, with less than 15 years of service credit on July 1, 2013, will receive a COLA equal to either three percent or the percent increase, if any, in the consumer price index (CPI) over the 12-month period ending on September 30 of the immediately preceding year, whichever is less. The COLA amount for members with at least 15 years of service credit as of July 1, 2013 is equal to three percent of their base pension or disability benefit.

Funding Policy - The Ohio Revised Code (ORC) provides statutory authority for member and employer contributions as follows:

| | <u>Police</u> | <u>Firefighters</u> |
|--|----------------|---------------------|
| 2015 Statutory Maximum Contribution Rates | | |
| Employer | 19.50 % | 24.00 % |
| Employee: | | |
| January 1, 2015 through July 1, 2015 | 11.50 % | 11.50 % |
| July 2, 2015 through December 31, 2015 | 12.25 % | 12.25 % |
| 2015 Actual Contribution Rates | | |
| Employer: | | |
| Pension | 19.00 % | 23.50 % |
| Post-employment Health Care Benefits | <u>0.50</u> | <u>0.50</u> |
| Total Employer | <u>19.50 %</u> | <u>24.00 %</u> |
| Employee: | | |
| January 1, 2015 through July 1, 2015 | 11.50 % | 11.50 % |
| July 2, 2015 through December 31, 2015 | 12.25 % | 12.25 % |

Employer contribution rates are expressed as a percentage of covered payroll. The City's contractually required contribution to OPF was \$1,498,031 for 2015. Of this amount \$112,299 is reported as an intergovernmental payable.

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, 2015, the unfunded liability of the City was \$527,125 payable in semi-annual payments through the year of 2035. This is an accounting liability of the City which will not vary.

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

The net pension liability for OPERS was measured as of December 31, 2014, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. OPF's total pension liability was measured as of December 31, 2014, and was determined by rolling forward the total pension liability as of January 1, 2014, to December 31, 2014. The City's proportion of the net pension liability was based on the City's share of contributions to the pension plan relative to the contributions of all participating entities. Following is information related to the proportionate share and pension expense:

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| | <u>OPERS</u> | <u>OP&F</u> | <u>Total</u> |
|--|--------------|-----------------|--------------|
| Proportionate Share of the Net Pension Liability | \$5,110,537 | \$18,299,637 | \$23,410,174 |
| Proportion of the Net Pension Liability | 0.042372% | 0.3532464% | |
| Pension Expense | \$555,913 | \$1,785,045 | \$2,340,958 |

At December 31, 2015, the City reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

| | <u>OPERS</u> | <u>OP&F</u> | <u>Total</u> |
|--|------------------|--------------------|--------------------|
| Deferred Outflows of Resources | | | |
| Net difference between projected and actual earnings on pension plan investments | \$272,683 | \$788,697 | \$1,061,380 |
| City contributions subsequent to the measurement date | <u>596,253</u> | <u>1,498,031</u> | <u>2,094,284</u> |
| Total Deferred Outflows of Resources | <u>\$868,936</u> | <u>\$2,286,728</u> | <u>\$3,155,664</u> |
| Deferred Inflows of Resources | | | |
| Differences between expected and actual experience | <u>\$89,782</u> | <u>\$0</u> | <u>\$89,782</u> |

\$2,094,284 reported as deferred outflows of resources related to pension resulting from City contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ending December 31, 2016. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pension will be recognized in pension expense as follows:

| Year Ending December 31: | <u>OPERS</u> | <u>OP&F</u> | <u>Total</u> |
|--------------------------|------------------|------------------|------------------|
| 2016 | \$26,745 | \$197,174 | \$223,919 |
| 2017 | 26,745 | 197,174 | 223,919 |
| 2018 | 61,240 | 197,174 | 258,414 |
| 2019 | <u>68,171</u> | <u>197,175</u> | <u>265,346</u> |
| Total | <u>\$182,901</u> | <u>\$788,697</u> | <u>\$971,598</u> |

Actuarial Assumptions - OPERS

Actuarial valuations of an ongoing plan involve estimates of the values of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and cost trends. Actuarially determined amounts are subject to continual review or modification as actual results are compared with past expectations and new estimates are made about the future.

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employers and plan members) and include the types of benefits provided at the time of each valuation. The total pension liability in the December 31, 2014, actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

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| | |
|--|--|
| Wage Inflation | 3.75 percent |
| Future Salary Increases, including inflation | 4.25 to 10.05 percent including wage inflation |
| COLA or Ad Hoc COLA | 3 percent, simple |
| Investment Rate of Return | 8 percent |
| Actuarial Cost Method | Individual Entry Age |

Mortality rates were based on the RP-2000 Mortality Table projected 20 years using Projection Scale AA. For males, 105 percent of the combined healthy male mortality rates were used. For females, 100 percent of the combined healthy female mortality rates were used. The mortality rates used in evaluating disability allowances were based on the RP-2000 mortality table with no projections. For males 120 percent of the disabled female mortality rates were used set forward two years. For females, 100 percent of the disabled female mortality rates were used.

The most recent experience study was completed for the five year period ended December 31, 2010.

The long-term rate of return on defined benefit investment assets was determined using a building-block method in which best-estimate ranges of expected future real rates of return are developed for each major asset class. These ranges are combined to produce the long-term expected real rate of return by weighting the expected future real rates of return by the target asset allocation percentage, adjusted for inflation.

OPERS manages investments in four investment portfolios: the Defined Benefits portfolio, the Health Care portfolio, the 115 Health Care Trust portfolio and the Defined Contribution portfolio. The Defined Benefit portfolio includes the investment assets of the Traditional Pension Plan, the defined benefit component of the Combined Plan, the annuitized accounts of the Member-Directed Plan and the VEBA Trust. Within the Defined Benefit portfolio, contributions into the plans are all recorded at the same time, and benefit payments all occur on the first of the month. Accordingly, the money-weighted rate of return is considered to be the same for all plans within the portfolio. The money weighted rate of return, net of investments expense, for the Defined Benefit portfolio is 6.95 percent for 2014.

The allocation of investment assets with the Defined Benefit portfolio is approved by the Board of Trustees as outlined in the annual investment plan. Plan assets are managed on a total return basis with a long-term objective of achieving and maintaining a fully funded status for the benefits provided through the defined benefit pension plans. The table below displays the Board-approved asset allocation policy for 2014 and the long-term expected real rates of return:

| <u>Asset Class</u> | <u>Target Allocation</u> | <u>Weighted Average Long-Term Expected Real Rate of Return (Arithmetic)</u> |
|------------------------|------------------------------|---|
| Fixed Income | 23.00 % | 2.31 % |
| Domestic Equities | 19.90 | 5.84 |
| Real Estate | 10.00 | 4.25 |
| Private Equity | 10.00 | 9.25 |
| International Equities | 19.10 | 7.40 |
| Other investments | 18.00 | 4.59 |
| Total | <u>100.00 %</u> | <u>5.28 %</u> |

Discount Rate The discount rate used to measure the total pension liability was 8 percent. The projection of cash flows used to determine the discount rate assumed that contributions from plan members and those of the contributing employers are made at the statutorily required rates. Based on those assumptions, the

City of Garfield Heights, Ohio
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pension plan's fiduciary net position was projected to be available to make all projected future benefits payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Sensitivity of the City's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate

The following table presents the City's proportionate share of the net pension liability calculated using the current period discount rate assumption of 8 percent, as well as what the City's proportionate share of the net pension liability would be if it were calculated using a discount rate that is one-percentage-point lower (7 percent) or one-percentage-point higher (9 percent) than the current rate:

| | 1% Decrease (7.00%) | Current Discount Rate (8.00%) | 1% Increase (9.00%) |
|--|------------------------|-------------------------------------|------------------------|
| City's proportionate share of the net pension liability | \$9,401,923 | \$5,110,537 | \$1,496,155 |

Actuarial Assumptions – OPF

OPF's total pension liability as of December 31, 2014 is based on the results of an actuarial valuation date of January 1, 2014, and rolled-forward using generally accepted actuarial procedures. The total pension liability is determined by OPF's actuaries in accordance with GASB Statement No. 67, as part of their annual valuation. Actuarial valuations of an ongoing plan involve estimates of reported amounts and assumptions about probability of occurrence of events far into the future. Examples include assumptions about future employment mortality, salary increases, disabilities, retirements and employment terminations. Actuarially determined amounts are subject to continual review and potential modifications, as actual results are compared with past expectations and new estimates are made about the future.

Key methods and assumptions used in calculating the total pension liability in the latest actuarial valuation, prepared as of January 1, 2014, are presented below:

| | |
|----------------------------|-------------------------------|
| Valuation Date | January 1, 2014 |
| Actuarial Cost Method | Entry Age Normal |
| Investment Rate of Return | 8.25 percent |
| Projected Salary Increases | 4.25 percent to 11 percent |
| Payroll Increases | 3.75 percent |
| Inflation Assumptions | 3.25 percent |
| Cost of Living Adjustments | 2.60 percent and 3.00 percent |

Rates of death are based on the RP2000 Combined Table, age-adjusted as follows. For active members, set back six years. For disability retirements, set forward five years for police and three years for firefighters. For service retirements, set back zero years for police and two years for firefighters. For beneficiaries, set back zero years. The rates are applied on a fully generational basis, with a base year of 2009, using mortality improvement Scale AA.

The most recent experience study was completed January 1, 2012.

The long-term expected rate of return on pension plan investments was determined using a building-block approach and assumes a time horizon, as defined in the Statement of Investment Policy. A forecasted rate of inflation serves as the baseline for the return expectation. Various real return premiums over the baseline inflation rate have been established for each asset class. The long-term expected nominal rate of return has been determined by calculating a weighted averaged of the expected real return premiums for each asset

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class, adding the projected inflation rate and adding the expected return from rebalancing uncorrelated asset classes. Best estimates of the long-term expected geometric real rates of return for each major asset class included in OPF’s target asset allocation as of December 31, 2014 are summarized below:

| <u>Asset Class</u> | <u>Target Allocation</u> | <u>Long Term Expected Real Rate of Return</u> |
|------------------------------|------------------------------|---|
| Cash and Cash Equivalents | - % | (0.25) % |
| Domestic Equity | 16.00 | 4.47 |
| Non-US Equity | 16.00 | 4.47 |
| Core Fixed Income * | 20.00 | 1.62 |
| Global Inflation Protected * | 20.00 | 1.33 |
| High Yield | 15.00 | 3.39 |
| Real Estate | 12.00 | 3.93 |
| Private Markets | 8.00 | 6.98 |
| Timber | 5.00 | 4.92 |
| Master Limited Partnerships | 8.00 | 7.03 |
| | | |
| Total | <u>120.00 %</u> | |

* levered 2x

OPF’s Board of Trustees has incorporated the “risk parity” concept into OPF’s asset liability valuation with the goal of reducing equity risk exposure, which reduces overall Total Portfolio risk without sacrificing return, and creating a more risk-balanced portfolio based on their relationship between asset classes and economic environments. From the notional portfolio perspective above, the Total Portfolio may be levered up to 1.2 times due to the application of leverage in certain fixed income asset classes.

Discount Rate The total pension liability was calculated using the discount rate of 8.25 percent. The projection of cash flows used to determine the discount rate assumed the contributions from employers and from the members would be computed based on contribution requirements as stipulated by State statute. Projected inflows from investment earning were calculated using the longer-term assumed investment rate of return 8.25 percent. Based on those assumptions, the plan’s fiduciary net position was projected to be available to make all future benefit payments of current plan members. Therefore, a long-term expected rate of return on pension plan investments was applied to all periods of projected benefits to determine the total pension liability.

Sensitivity of the City's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate Net pension liability is sensitive to changes in the discount rate, and to illustrate the potential impact the following table presents the net pension liability calculated using the discount rate of 8.25 percent, as well as what the net pension liability would be if it were calculated using a discount rate that is one percentage point lower (7.25 percent), or one percentage point higher (9.25 percent) than the current rate.

| | 1% Decrease (7.25%) | Current Discount Rate (8.25%) | 1% Increase (9.25%) |
|--|------------------------|-------------------------------------|------------------------|
| City's proportionate share of the net pension liability | \$25,311,166 | \$18,299,637 | \$12,363,003 |

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Note 19 - Postemployment Benefits

Ohio Public Employees Retirement System

Plan Description - The Ohio Public Employees Retirement System (OPERS) administers three separate pension plans: the traditional 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 two cost-sharing, multiple-employer defined benefit postemployment health care trusts, which fund multiple health care plans including medical coverage, prescription drug coverage, deposits to a health reimbursement arrangement and Medicare Part B premium reimbursements, to qualifying benefit recipients of both the traditional pension and combined plans. Members of the member-directed plan do not qualify for ancillary benefits, including OPERS sponsored health care coverage.

In order to qualify for postemployment health care coverage, age and service retirees under the traditional pension and combined plans must have twenty or more years of qualifying Ohio service credit. Health care coverage for disability benefit recipients and qualified survivor benefit recipients is available. The health care coverage provided by OPERS meets the definition of an Other Post Employment Benefit (OPEB) as described in GASB Statement 45. See OPERS' CAFR referenced below for additional information.

The Ohio Revised Code permits, but does not require, OPERS to provide health care to its eligible benefit recipients. Authority to establish and amend health care coverage is provided to the Board in Chapter 145 of the Ohio Revised Code.

Disclosures for the health care plan are presented separately in the OPERS financial report. Interested parties may obtain a copy by visiting <https://www.opers.org/investments/cafr.shtml>, by writing to OPERS, 277 East Town Street, Columbus, Ohio 43215-4642, or by calling (614) 222-5601 or 800-222-7377.

Funding Policy - The Ohio Revised Code provides the statutory authority requiring public employers to fund postemployment health care through their contributions to OPERS. A portion of each employer's contribution to OPERS is set aside for the funding of postemployment health care.

Employer contribution rates are expressed as a percentage of the earnable salary of active members. In 2015, state and local employers contributed at a rate of 14.0 percent of earnable salary. These are the maximum employer contribution rate permitted by the Ohio Revised Code. Active member contributions do not fund health care.

OPERS maintains three health care trusts. The two cost-sharing, multiple employer trusts, the 401(h) Health Care Trust and the 115 Health Care Trust, work together to provide health care funding to eligible retirees of the Traditional Pension and Combined plans. The third trust is a Voluntary Employee's Beneficiary Association (VEBA) that provides funding for a Retiree Medical Account for Member-Directed Plan members. Each year, the OPERS Board of Trustees determines the portion of the employer contribution rate that will be set aside to fund health care plans. The portion of employer contributions allocated to health care for members in the Traditional Pension Plan and Combined Plan was 2.0 percent during calendar year 2015. As recommended by OPERS' actuary, the portion of employer contributions allocated to health care beginning January 1, 2016 remained at 2.0 percent for both plans. The Board is also authorized to establish rules for the retiree or their surviving beneficiaries to pay a portion of the health care provided. Payment amounts vary depending on the number of covered dependents and the coverage selected. The employer contribution as a percentage of covered payroll deposited to the VEBA for participants in the Member-Directed Plan for 2015 was 4.5 percent.

City of Garfield Heights, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2015

Substantially all of the City's contributions allocated to fund post-employment health care benefits relates to the cost-sharing, multiple employer trusts. The corresponding contribution for the years ended December 31, 2015, 2014 and 2013 were \$99,375, \$111,006 and \$52,485 respectively. For 2015, 85.71 percent has been contributed with the balance being reported as an intergovernmental payable. The full amount has been contributed for 2014 and 2013.

Police and Fire Pension Fund

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

OPF provides access to postretirement 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 OPF meets the definition of an Other Postemployment Benefit (OPEB) as described in Government Accounting Standards Board (GASB) Statement No. 45.

The Ohio Revised Code allows, but does not mandate, OPF to provide OPEB benefits. Authority for the OPF 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.

OPF issues a publicly available financial report that includes financial information and required supplementary information for the plan. The report may be obtained by visiting the OPF website at www.opf.org or by writing to the Ohio Police and Fire Pension Fund, 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 OPF defined benefit pension plan. Participating employers are required by the Ohio Revised Code to contribute to the pension plan at rates expressed as a percentage of payroll of active pension plan members, currently 19.5 percent and 24 percent of covered payroll for police and firefighters, respectively. Active members do not make contributions to the OPEB Plan.

OPF 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 premium 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 OPF Board of Trustees.

The Board of Trustees is authorized to allocate a portion of the total employer contribution made to the pension plan to the Section 115 trust and the Section 401(h) account as the employer contribution for retiree health care benefits. For 2014, the employer contribution allocated to the health care plan was .5 percent of covered payroll. The amount of employer contribution allocated to the health care plan each year is subject to the Trustees' primary responsibility to ensure that pension benefits are adequately funded and is limited by the provisions of Sections 115 and 401(h).

The OPF 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.

City of Garfield Heights, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2015

The City's contributions to OPF which were allocated to fund postemployment health care benefits for police and firefighters were \$19,273 and \$16,291 for the year ended December 31, 2015, \$20,068 and \$17,496 for the year ended December 31, 2014, and \$145,777 and \$118,425 for the year ended December 31, 2013. For 2015, 97.44 percent has been contributed for police and 97.92 percent has been contributed for firefighters with the balance being reported as an intergovernmental payable. The full amount has been contributed for 2014 and 2013.

Note 20 – Significant Commitments

Encumbrances

Encumbrances are commitments related to unperformed contracts for goods or services. Encumbrance accounting is utilized to the extent necessary to assure effective budgetary control and accountability and to facilitate effective cash planning and control. At year end the amount of encumbrances expected to be honored upon performance by the vendor in the next year were as follows:

| | |
|----------------------------|---------------------------|
| <i>Governmental Funds:</i> | |
| General | \$369,980 |
| Storm and Sewer | 262,384 |
| Street Improvement | 291,505 |
| Other Governmental Funds | 196,546 |
| Total | <u><u>\$1,120,415</u></u> |

Contractual Commitments

At December 31, 2015, the City's significant commitments consisted of retainage payables of \$139,535 to Fabrizi Construction, \$162,279 to Terrace Construction and \$105,966 to Tri Mor for the Multi-Street Construction project and \$128,097 to Specialized Construction for the 2015 paving program.

Note 21 – Cleveland Waterline Projects

During 2014, the City transferred ownership and replacement responsibilities of its waterlines to the City of Cleveland. The City of Garfield Heights did not capitalize the waterlines as part of their infrastructure. The City also entered into an agreement with the Cleveland Division of Water under which the City of Garfield Heights would manage and design the projects of which the Division of Water would pay for. The expenditures for waterline improvements will not be capitalized. An agency fund has been created to account for funds received by the Division of Water to be expensed for the design and construction of such projects.

Note 22 – Change in Accounting Principle and Restatement of Net Position

For 2015, the City implemented the Governmental Accounting Standards Board (GASB) Statement No. 68, "Accounting and Financial Reporting for Pensions – an amendment of GASB Statement No. 27" and GASB Statement No. 71, "Pension Transition for Contributions Made Subsequent to the Measurement Date – an amendment of GASB Statement No. 68". GASB 68 established standards for measuring and recognizing pension liabilities, deferred outflows of resources, deferred inflows of resources and expense/expenditure.

City of Garfield Heights, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2015

The implementation of this pronouncement had the following effect on net position as reported at December 31, 2014:

| | <u>Governmental Activities</u> |
|--|------------------------------------|
| Net Position December 31, 2014 | \$19,465,887 |
| Adjustments: | |
| Net Pension Liability | (22,199,315) |
| Deferred Outflow - Payments Subsequent to Measurement Date | <u>2,101,697</u> |
| Restated Net Position December 31, 2014 | <u><u>(\$631,731)</u></u> |

Other than employer contributions subsequent to the measurement date, the City made no restatement for deferred inflows/outflows of resources as the information needed to generate these restatements was not available.

Required Supplementary Information

City of Garfield Heights, Ohio
Required Supplementary Information
Schedule of the City's Proportionate Share of the Net Pension Liability
Ohio Public Employees Retirement System - Traditional Plan
Last Two Years (1)

| | 2015 | 2014 |
|---|-------------|-------------|
| City's Proportion of the Net Pension Liability | 0.042372% | 0.042372% |
| City's Proportionate Share of the Net Pension Liability | \$5,110,537 | \$4,995,107 |
| City's Covered-Employee Payroll | \$5,194,867 | \$5,248,508 |
| City's Proportionate Share of the Net Pension Liability as a Percentage of its Covered-Employee Payroll | 98.38% | 95.17% |
| Plan Fiduciary Net Position as a Percentage of the Total Pension Liability | 86.45% | 86.36% |

(1) Although this schedule is intended to reflect information for ten years, information prior to 2014 is not available. An additional column will be added each year

Amounts presented for each year were determined as of the City's measurement date which is the prior year end.

City of Garfield Heights, Ohio
Required Supplementary Information
Schedule of the City's Proportionate Share of the Net Pension Liability
Ohio Police and Fire Pension System
Last Two Years (1)

| | 2015 | 2014 |
|---|--------------|--------------|
| City's Proportion of the Net Pension Liability | 0.3532464% | 0.3532464% |
| City's Proportionate Share of the Net Pension Liability | \$18,299,637 | \$17,204,208 |
| City's Covered-Employee Payroll | \$7,023,557 | \$7,305,117 |
| City's Proportionate Share of the Net Pension Liability as a Percentage of its Covered-Employee Payroll | 260.55% | 235.51% |
| Plan Fiduciary Net Position as a Percentage of the Total Pension Liability | 72.20% | 73.00% |

(1) Although this schedule is intended to reflect information for ten years, information prior to 2014 is not available. An additional column will be added each year

Amounts presented for each year were determined as of the City's measurement date which is the prior year end.

City of Garfield Heights, Ohio
Required Supplementary Information
Schedule of the City's Contributions
Ohio Public Employees Retirement System - Traditional Plan
Last Three Years (1)

| | <u>2015</u> | <u>2014</u> | <u>2013</u> |
|---|------------------|------------------|------------------|
| Contractually Required Contribution | \$596,253 | \$523,384 | \$682,306 |
| Contributions in Relation to the Contractually Required Contribution | <u>(596,253)</u> | <u>(523,384)</u> | <u>(682,306)</u> |
| Contribution Deficiency (Excess) | <u>\$0</u> | <u>\$0</u> | <u>\$0</u> |
| City Covered-Employee Payroll | \$4,968,771 | \$5,194,867 | \$5,248,508 |
| Contributions as a Percentage of Covered-Employee Payroll | 12.00% | 10.08% | 13.00% |

(1) Information prior to 2013 is not available.

City of Garfield Heights, Ohio
Required Supplementary Information
Schedule of the City's Contributions
Ohio Police and Fire Pension System
Last Ten Years

| | <u>2015</u> | <u>2014</u> | <u>2013</u> | <u>2012</u> |
|---|--------------------|--------------------|--------------------|--------------------|
| Contractually Required Contribution | \$1,498,031 | \$1,478,313 | \$1,307,650 | \$1,047,948 |
| Contributions in Relation to the Contractually Required Contribution | <u>(1,498,031)</u> | <u>(1,478,313)</u> | <u>(1,307,650)</u> | <u>(1,047,948)</u> |
| Contribution Deficiency (Excess) | <u>\$0</u> | <u>\$0</u> | <u>\$0</u> | <u>\$0</u> |
| City Covered-Employee Payroll | \$7,112,704 | \$7,023,557 | \$7,305,117 | \$7,119,971 |
| Contributions as a Percentage of Covered-Employee Payroll: | 21.06% | 21.05% | 17.90% | 14.72% |

| <u>2011</u> | <u>2010</u> | <u>2009</u> | <u>2008</u> | <u>2007</u> | <u>2006</u> |
|--------------------|--------------------|--------------------|--------------------|--------------------|------------------|
| \$1,029,217 | \$1,102,168 | \$1,077,114 | \$1,074,800 | \$1,110,411 | \$971,681 |
| <u>(1,029,217)</u> | <u>(1,102,168)</u> | <u>(1,077,114)</u> | <u>(1,074,800)</u> | <u>(1,110,411)</u> | <u>(971,681)</u> |
| <u>\$0</u> | <u>\$0</u> | <u>\$0</u> | <u>\$0</u> | <u>\$0</u> | <u>\$0</u> |
| \$6,982,183 | \$7,519,389 | \$7,337,690 | \$7,346,295 | \$7,594,563 | \$7,138,382 |
| 14.74% | 14.66% | 14.68% | 14.63% | 14.62% | 13.61% |

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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***

Members of 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 the City of Garfield Heights, Ohio (the “City”), as of and for the year ended December 31, 2015, 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 30, 2017, wherein we noted that the City adopted Governmental Accounting Standards Board (GASB) Statement No. 68, *Accounting and Financial Reporting for Pensions – an amendment of GASB Statement No. 27*, and GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date – an amendment of GASB Statement No. 68*, and as a result restated their December 31, 2014 net position, as disclosed in Note 22 to the basic financial statements.

Internal Control over Financial Reporting

In planning and performing our audit 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 the 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 City’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.

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 and therefore, material weaknesses or significant deficiencies may exist that were not identified. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings that we consider to be a material weakness (2015-001).

Members of the City Council
City of Garfield Heights, Ohio

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 audit, 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 item 2015-002.

City's Response to Findings

The City's response to the finding identified in our audit is described in the accompanying corrective action plan. The City's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

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 City's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Cienni + Panichi, Inc.

Cleveland, Ohio
June 30, 2017

City of Garfield Heights, Ohio

Schedule of Findings

For the Year Ended December 31, 2015

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)? | Yes |
| (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

2015-001 – Material Weakness in internal control over financial reporting:

Condition:

We noted the City improperly reported infrastructure asset additions based on the City Engineer's estimated cost value and not the actual cost of the project.

Criteria:

The internal control structure and processes should provide for the accurate reporting of infrastructure additions utilizing actual costs incurred.

Cause:

Controls were not in place to ensure the City's reporting of infrastructure additions were accurate.

Effect:

The lack of controls over the reporting of infrastructure additions may result in errors or irregularities going undetected and decrease the reliability of financial data throughout the year.

Recommendation:

We recommend the City implement controls over the reporting of infrastructure additions to help ensure that the actual cost of the project is capitalized, thereby increasing the reliability of the financial data.

City of Garfield Heights, Ohio

Schedule of Findings (continued)

For the Year Ended December 31, 2015

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

2015-002 - Material noncompliance:

Ohio Rev. Code Section 5705.39 prohibits a political subdivision from making a fund appropriation in excess of estimated resources available for expenditure from the fund. In addition, Ohio Rev. Code 5705.40 states that any appropriation measure may be amended or supplemented as long as the entity complies with the same provisions of the law as are used in making the original appropriation.

The following funds had original appropriations in excess of estimated resources available for expenditure during the year ended December 31, 2015:

| <u>Fund</u> | <u>Excess</u> |
|----------------------------------|----------------|
| Major Funds: | |
| Storm and Sewer Fund | \$ (3,239,016) |
| Street Improvement Fund | (1,259,132) |
| Non-major Special Revenue Funds: | |
| Street Lighting Fund | (34,374) |
| Police Pension Fund | (2,525) |
| Fire Pension Fund | (50,679) |
| GH Family Resource Fund | (69,366) |

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

The following funds had final appropriations in excess of estimated resources available for expenditure during the year ended December 31, 2015:

| <u>Fund</u> | <u>Excess</u> |
|---|---------------|
| Major Funds: | |
| General Fund | \$ (420,501) |
| Storm and Sewer Fund | (3,426,124) |
| Street Improvement Fund | (3,270,992) |
| Non-major Special Revenue Funds: | |
| Street Lighting Fund | (76,974) |
| Police Pension Fund | (34,927) |
| Fire Pension Fund | (50,679) |
| Street, Construction, Maintenance and Repair Fund | (26,359) |
| GH Family Resource Fund | (80,666) |

City of Garfield Heights, Ohio

Schedule of Findings (continued)

For the Year Ended December 31, 2015

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

2015-002 - Material noncompliance (continued):

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

Recommendation

We recommend the City review appropriations and estimated resources, on an ongoing basis, to ensure appropriations do not exceed estimated resources available for each of its funds and make the necessary revisions to the budget and submit the revised budget to the County Fiscal Officer in order to comply with legal budgetary requirements.

City of Garfield Heights, Ohio

Schedule of Prior Year Findings

For the Year Ended December 31, 2015

| Finding No. | Finding Summary | Fully Corrected | Explanation |
|-------------|--|-----------------|--|
| 2014-001 | <p>Significant Deficiency: Sound financial reporting is the responsibility of the City and the GAAP conversion team and is essential to ensure the information provided to the readers of the financial statements is complete and accurate. Lack of controls over the posting of financial transactions and financial reporting can result in errors and irregularities that may go undetected and decreases the reliability of financial data throughout the year.</p> <p>The following audit adjustments were made to the financial statements: 1. Adjusted accounts payable to actual by adding \$252,647 of expenditures to various funds relating to services received in 2014 and not paid until after year-end. 2. Adjusted construction in progress and machinery equipment accounts to properly capitalize \$189,984 of equipment put into service during 2014.</p> <p>Effect: Lack of controls over financial reporting can result in errors and irregularities in the financial statements that may go undetected and would decrease the reliability of financial data reported at year-end.</p> <p>Recommendation: We recommend the City and GAAP conversion team creates policies and procedures for controls over year-end financial reporting to help ensure the information accurately reflects the activity of the City thereby increasing the reliability of the financial data at year-end. Although the City has contracted a third party to perform their GAAP conversion, the City's management needs to review the financial statements and journal entries to be sure that all items are being properly recorded.</p> | No | Material audit adjustments were required related to this matter in 2015. |

The City of Garfield Heights

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FAX 216/475-3807



OFFICE OF THE FINANCE DIRECTOR

City of Garfield Heights, Ohio

Corrective Action Plan

For the Year Ended December 31, 2015

| Finding No. | Finding Summary | Anticipated Completion Date | Responsible Contact Person |
|-------------|--|-----------------------------|-----------------------------|
| 2015-001 | <p>The auditor noted the City improperly reported infrastructure asset additions based on the City Engineer's estimated cost value and not the actual cost of the project.</p> <p>The finance department will implement controls to accurately report infrastructure additions at cost.</p> | December 31, 2017 | Barb Biro, Finance Director |
| 2015-002 | <p>Ohio Rev. Code Section 5705.39 prohibits a political subdivision from making a fund appropriation in excess of estimated resources available for expenditure from the fund. In addition, Ohio Rev. Code 5705.40 states that any appropriation measure may be amended or supplemented as long as the entity complies with the same provisions of the law as are used in making the original appropriation.</p> <p>The following funds had original appropriations in excess of estimated resources available for expenditure during the year ended December 31, 2015: Major Funds: Storm and Sewer Fund \$(3,239,016) and Street Improvement Fund \$(1,259,132), Non-major Special Revenue Funds: Street Lighting Fund \$(34,374), Police Pension Fund \$(2,525), Fire Pension Fund \$(50,679) and GH Family Resource Fund \$(69,366).</p> <p>The following funds had final appropriations in excess of estimated resources available for expenditure during the year ended December 31, 2015: Major Funds: General Fund \$(420,501), Storm and Sewer Fund \$(3,426,124) and Street Improvement Fund</p> | December 31, 2017 | Barb Biro, Finance Director |

City of Garfield Heights, Ohio

Corrective Action Plan

For the Year Ended December 31, 2015

| | | | |
|--|--|--|--|
| | <p>\$(3,426,124) and Street Improvement Fund \$(3,270,992), Non-major Special Revenue Funds: Street Lighting Fund \$(76,974), Police Pension Fund \$(34,927), Fire Pension Fund \$(50,679), Street, Construction, Maintenance and Repair Fund \$(26,359) and GH Family Resource Fund \$(80,666).</p> <p>The City will review appropriations and estimated resources, on an ongoing basis, to ensure appropriations do not exceed estimated resources available for each of its funds and make the necessary revisions to the budget and submit the revised budget to the County Fiscal Officer in order to comply with legal budgetary requirements.</p> | | |
|--|--|--|--|



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 28, 2017**