



**CITY OF GARFIELD HEIGHTS
CUYAHOGA COUNTY**

SINGLE AUDIT

FOR THE YEAR ENDED DECEMBER 31, 2001



JIM PETRO
AUDITOR OF STATE

STATE OF OHIO

**CITY OF GARFIELD HEIGHTS
CUYAHOGA COUNTY**

TABLE OF CONTENTS

TITLE	PAGE
Report of Independent Accountants	1
Management's Discussion and Analysis	4
Basic Financial Statements	
Government-wide Financial Statements:	
Statement of Net Assets	14
Statement of Activities	15
Fund Financial Statements:	
Balance Sheet - Governmental Funds	16
Statement of Revenues, Expenditures and Changes in Fund Balances - Governmental Funds	18
Statement of Revenues, Expenditures, and Changes in Fund Balances - Budget (Non-GAAP Basis) and Actual General Fund	20
Statement of Fiduciary Assets and Liabilities - Agency Funds	21
Notes to the Basic Financial Statements	22
Schedule of Federal Awards Expenditures	45
Notes to the Schedule of Federal Awards Expenditures	46
Report on Compliance and on Internal Control Required by <i>Government Auditing Standards</i>	47
Report on Compliance With Requirements Applicable to Its Federal Program and Internal Control Over Compliance In Accordance With OMB Circular A-133	49
Schedule of Finding	51
Schedule of Prior Audit Findings	54
Corrective Action Plan	55

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REPORT OF INDEPENDENT ACCOUNTANTS

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

We have audited the accompanying basic financial statements of the City of Garfield Heights, Cuyahoga County, Ohio, (the City) as of and for the year ended December 31, 2001, as listed in the table of contents. These financial statements are the responsibility of the City's management. Our responsibility is to express an opinion 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 of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the financial position of the City of Garfield Heights, Cuyahoga County, Ohio, as of December 31, 2001, and the results of its operations for the year ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated July 10, 2002, on our consideration of the City's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Management's Discussion and Analysis is not a required part of the basic financial statements, but is supplementary information the Governmental Accounting Standards Board requires. We applied limited procedures, consisting principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. We did not audit the information and express no opinion thereon.

We performed our audit to form an opinion on the basic financial statements of the City taken, as a whole. The schedule of federal awards expenditures is presented for additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the basic financial statements. We subjected this information to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

A handwritten signature in black ink, appearing to read "Jim Petro".

Jim Petro
Auditor of State

July 10, 2002

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City of Garfield Heights, Ohio
Management's Discussion and Analysis
For the Year Ended December 31, 2001
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, 2001. The intent of this discussion and analysis is to look at the City's financial performance as a whole. Readers should also review the basic financial statements to enhance their understanding of the City's financial performance.

Financial Highlights

Key financial highlights for 2001 were as follows:

- _ Total net assets decreased \$1,379,234 or 11.4 percent from 2000.
- _ Capital assets, net of depreciation increased by \$2,417,361 or 6.5 percent over 2000.
- _ Total assets of governmental activities decreased \$1,155,079, which represents a 2.04 percent decrease over 2000.
- _ Total liabilities of governmental activities increased by \$1,689,691 or 3.9 percent over 2000.
- _ In total, equity in pooled cash and cash equivalents decreased \$1,999,001, or 61.0 percent, from 2000.
- _ New vehicle and machinery and equipment cash purchases during 2001 totaled \$963,409.
- _ The City completed the construction of a new five-building Service Center Complex.

Using this Annual Financial Report

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

The Statement of Net Assets and Statement of Activities provide information about the activities of the whole City, presenting both an aggregate view of the City's finances and a long-term view of those assets. Major fund financial statements provide the next level of detail. For governmental funds, these statements tell how services were financed in the short-term as well as what dollars remain for future spending. The fund financial statements also look at the City's most significant funds with all other non-major funds presented in total in one column.

City of Garfield Heights, Ohio
Management's Discussion and Analysis
For the Year Ended December 31, 2001
Unaudited

Reporting the City of Garfield Heights as a Whole

Statement of Net Assets and the Statement of Activities

While this document contains information about the funds used by the City to provide services to our citizens, the view of the City as a whole looks at all financial transactions and asks the question, "How did we do financially during 2001?" The Statement of Net Assets and the Statement of Activities answer this question. These statements include all assets and liabilities using the accrual basis of accounting similar to the accounting used by the private sector companies. This basis of accounting takes into account all of the current year's revenues and expenses regardless of when the cash is received or paid.

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

In the Statement of Net Assets and the Statement of Activities, all of the City's activities are reported as Governmental Activities, which include all of the City's services including police, fire, administration, and all other departments. The City of Garfield Heights does not operate any Business Type Activities and has no Component Units.

Reporting the City of Garfield Heights' Most Significant Funds

Fund Financial Statements

The analysis of the City's major funds begins on page 9. Fund financial reports provide detailed information about the City's major funds. Based on restrictions on the use of monies, the City has established many funds, which account for the multitude of services provided to the City's residents. However, these fund financial statements focus on the City's most significant funds. In the case of the City of Garfield Heights, the City's major funds are the General, Bond Retirement, Various Improvement Note and the Service Center Note Funds.

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

City of Garfield Heights, Ohio
Management's Discussion and Analysis
For the Year Ended December 31, 2001
Unaudited

The City of Garfield Heights as a Whole

Recall that the Statement of Net Assets looks at the City as a whole. Table 1 provides a summary of the City's net assets for 2001 compared to 2000.

(Table 1)
Net Assets

	Governmental Activities	
	2001	2000
Assets		
Current and Other Assets	\$15,781,558	\$19,353,998
Capital Assets, Net	39,592,776	37,175,415
<i>Total Assets</i>	<u>55,374,334</u>	<u>56,529,413</u>
Liabilities		
Current and Other Liabilities	(16,369,930)	(19,664,537)
Long Term Liabilities:		
Due Within One Year	(1,142,337)	(1,405,632)
Due in More than One Year	(27,189,375)	(21,941,782)
<i>Total Liabilities</i>	<u>(44,701,642)</u>	<u>(43,011,951)</u>
Net Assets		
Invested in Capital Assets Net of Debt	13,462,776	12,474,603
Restricted:		
Debt Service	1,988,370	3,621,974
Other Purposes	143,391	0
Unrestricted	(4,921,845)	(4,044,651)
<i>Total Net Assets</i>	<u>\$10,672,692</u>	<u>\$12,051,926</u>

Current and other assets decreased by \$3,572,440, while capital assets (net of depreciation) increased by \$2,417,361, thus creating a decrease in Total Assets of \$1,155,079. Total liabilities increased by \$1,689,691. Equity in pooled cash and cash equivalents decreased by \$1,999,001 between 2000 and 2001. The bulk of these variances occurred due to the completion and occupancy of the City's new five-building Service Center Complex. At the start of this construction project the City issued short-term notes in the amount of \$6,000,000, to be combined with other financing sources, to cover the estimated costs of construction of this complex. At December 31, 2001 the service center note fund established to track the construction project showed a deficit balance, thus creating the bulk of the decrease in pooled cash and cash equivalents. In the note section to these financial statements you will find notice of a Subsequent Event worth noting here. In April of 2002, the City successfully issued \$7,300,000 in general obligation bonds in order to rectify this situation. It is common practice for the City to finance capital projects in this manner, through the issuance of short term financing instruments (notes) during the construction phase of a project, and then issue a final long-term general obligation instrument (bonds) once all final construction costs have been tabulated.

Total Net Assets of the City's governmental activities decreased by \$1,379,234, with unrestricted net assets decreasing \$877,194. Unrestricted assets are not enough to pay liabilities payable from unrestricted assets. This has been identified by the presentation of the new financial statements. Management is discussing the long-term effect for the City.

City of Garfield Heights, Ohio
Management's Discussion and Analysis
For the Year Ended December 31, 2001
Unaudited

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

Table 2 shows the Changes in Net Assets for the year ended December 31, 2001.

(Table 2)
 Changes in Net Assets

	<u>2001</u>	<u>2000</u>
Revenues		
Program Revenues		
Charges for Services	\$3,846,893	\$3,513,498
Operating Grants and Contributions	254,866	1,283,279
Capital Grants and Contributions	56,156	47,607
<i>Total Program Revenues</i>	<u>4,157,915</u>	<u>4,844,384</u>
General Revenues:		
Property Taxes	7,501,955	6,633,648
Income Taxes	8,581,775	9,191,039
Grants and Entitlements not Restricted to Specific Programs	4,835,388	3,184,164
Other	1,420,119	580,445
Total General Revenues	<u>22,339,237</u>	<u>19,589,296</u>
<i>Total Revenues</i>	<u>26,497,152</u>	<u>24,433,680</u>
Program Expenses		
General Government	9,517,049	7,183,714
Security of Persons and Property	10,044,831	9,585,455
Public Health Services	535,993	554,561
Transportation	2,560,241	2,086,464
Community Development	265,079	296,730
Basic Utility Services	2,458,351	2,414,706
Leisure Time Activities	1,199,089	1,063,572
Interest and Fiscal Charges	1,295,753	1,454,728
<i>Total Expenses</i>	<u>27,876,386</u>	<u>24,639,930</u>
<i>Decrease in Net Assets</i>	<u>(\$1,379,234)</u>	<u>(\$206,250)</u>

City of Garfield Heights, Ohio
Management's Discussion and Analysis
For the Year Ended December 31, 2001
Unaudited

The reduction in Net Assets, under full accrual basis accounting, identified in Table 2 was due to expenses exceeding revenues during 2001. A large portion of this reduction in unrestricted net assets was due to the completion of the Service Garage Complex discussed previously. This situation has been resolved with the recent bond sale for this project. Other factors that contributed to this reduction in Net Assets include annual increases in employee wages, increases in compensated absences resulting from this increase in wages. Although Total Expenses were higher than Total Revenues, many positive factors are evident in Table 2. Total Revenues increased by \$2,063,472 over 2000 Total Revenues. Only two revenue areas showed a decline from 2000 revenues, these were Operating Grants and Contributions and Income Taxes. A large portion of the decreases in these areas is due to the revenue recognition requirements of full accrual accounting. Operating Grants and Contributions will fluctuate annually depending upon the success of the City during the application process for various grant programs and the timing of the revenue recognition of the awarded grants. The decline in Income Tax Revenues will be discussed in more detail under Governmental Activities.

Governmental Activities

Several revenue sources fund our Governmental Activities. Under the accrual basis of accounting, the City Income Taxes accounted for \$8,581,775 or 32.39 percent of total revenues; Property Taxes accounted for \$7,501,955 or 28.31 percent of gross revenues; Grants and Entitlements accounted for \$4,835,388 or 18.25 percent of gross revenues; and Charges for Services accounted for \$3,846,893 or 14.52 percent of gross revenues. The income tax rate of 2.0 percent was approved by a vote of our citizens in 1982, which took effect in January of 1983.

As mentioned previously, Table 2 indicates a reduction in Income Taxes from 2000 to 2001 of about 6.63 percent. This decline in revenue is due to the full accrual accounting revenue recognition requirements, which takes into account the timing of when revenue is recognized and an averaging process of prior years collections in order to best estimate current collections. This revenue recognition process is complex and difficult to understand, and may result in an annual fluctuation of the Income Tax amounts identified in Table 2. An analysis of the City's cash basis Income Tax collections may be helpful. Under the cash basis of accounting, The City was able to increase its' Income Tax collections, through the decade of the 1990's, by 60.71 percent, from gross collections in 1990 of \$5,560,655 to gross collections in 2000 of \$8,936,783. During 2001, the City posted gross (cash) Income Tax collections of \$9,009,643. Given the current economic conditions of our area, the projected 2002 cash collections are still estimated at \$8,900,000 by the City's collection agent, the Regional Income tax agency, a reduction of only 1.21 percent. The difference between this cash value and the Income Tax value identified in Table 2, above, is again due to accrual basis accounting, which takes into account the timing of when revenues are recognized. The majority of this increase in actual cash collections was due to an aggressive economic development program and the development of two commercial districts of the City, the Broadway Avenue/McCracken Road Development District and the I-480/ Transportation Boulevard. Development District. Although much of this development has been accomplished through the use of Property Tax Incentives (such as Property Tax Abatement), the loss in property taxes collected has been more than offset by the increases in the Income Tax collections. Furthermore, the earliest of these agreements are beginning to come to an end, thus the full benefit of this development will begin to be realized by the City within the next few years.

Major expense activities, under the accrual basis of accounting, included: Security of Persons and Property expenses accounted for 36.03 percent of total program expenses; General Government expenditures accounted for 34.14 percent; Transportation accounted for 9.18 percent; and Basic Utility accounting for 8.82 percent. The City is committed to providing the basic services that our residents expect.

City of Garfield Heights, Ohio
Management's Discussion and Analysis
For the Year Ended December 31, 2001
Unaudited

Although the City has worked very hard on increasing our income tax base by being proactive with new businesses in our City and reducing cost department by department, we still strive to provide a better service at a lower cost per man-hour. The ability of the City to continue to provide quality services without income tax increases rests on City management's ability to keep these costs in line.

The City's Funds

Information about the City's major governmental funds begins on page 16. These funds are accounted for using the modified accrual basis of accounting. All governmental funds had total revenues of \$26,698,392 and expenditures of \$30,731,520. The most significant change in funds is due to the Service Center fund and the Various Improvement fund, and the issuance of \$6,000,000 and \$2,500,000 respectively, in notes payable for construction projects. It is important to realize that all short-term notes issued by the City are recognized in the current period as short-term liabilities, and once bonded by the City, they become long-term general obligation debt of the City.

The fund balance of the general fund decreased by \$259,261, while revenues exceeded expenditures by \$1,351,790. Much of the excess was transferred to other funds. These funds used the transfers for street maintenance, senior citizens programs and of pension obligations payments.

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 2001, the City amended its general fund budget. All recommendations for a budget change come from the City Finance Director to the Finance Committee of Council for review before going to the whole Council for ordinance enactment on the change. The City does not allow budget changes that modify line items within departments without Council approval. With the General Fund supporting many of the major activities such as the police and fire departments, as well as most legislative and executive activities, the General Fund is monitored closely for possible revenue shortfalls or over spending by individual departments.

For the General Fund, original budgeted revenues were \$18,314,187; final budget amounts were \$19,157,688; and actual revenue collections were \$19,058,779. Three major factors contributing to the increase of actual revenues over the original budgeted amounts were increased revenues for the categories of intergovernmental, property and other taxes, and charges for services.

The City of Garfield Heights' ending unencumbered cash balance in the general fund was \$95,717 below the final budgeted amount.

City of Garfield Heights, Ohio
Management's Discussion and Analysis
For the Year Ended December 31, 2001
Unaudited

Capital Assets and General Long-Term Obligations

Capital Assets

Table 3
 Capital Assets at December 31, 2001
 (Net of Depreciation)

	Governmental Activities	
	2001	2000
Land	\$1,414,430	\$1,291,649
Buildings	12,972,604	5,765,301
Improvements Other than Buildings	2,630,957	2,729,867
Vehicle	1,943,294	1,655,747
Machinery and Equipment	1,762,268	1,700,592
Furniture and Fixtures	313,376	297,851
Construction in Progress	0	6,006,149
Infrastructure	18,555,847	17,728,260
Total	\$39,592,776	\$37,175,415

The primary increase in capital assets (net of depreciation) during 2001 was due to the completion and occupancy of the City's new five-building Service Center Complex. The City added total building value for this complex in the amount of \$7,207,303 during 2001. Of this amount \$6,006,149 was identified in the December 31, 2000 Capital Asset Table as construction in progress. This value was removed from the Table in 2001. Depreciation started on the new complex in 2001 and the City's old Service Garage values were removed upon the demolition of the structure, thus creating the net of depreciation increase in building values for December 31, 2001.

Infrastructure asset additions, net of depreciation, were \$827,587 for 2001. This increase was due primarily to the completion of the Broadway Road Reconstruction Project, which added total value of \$1,372,120 to the City's Road values. It is important to note that the City's actual cost in this project was much less as the City received a State Issue 2 grant in the amount of \$684,058 and the City is awaiting reimbursement from ODOT in the amount of \$472,000, for this project.

General Long-Term Obligations

At December 31, 2001 the City of Garfield Heights had \$28,230,000 in outstanding General Obligation Bonds, Special Assessment Bonds, and Notes. The City's overall legal debt margin at December 31, 2001 was \$20,470,552. Table 4 indicates the total outstanding long-term obligations of the City.

City of Garfield Heights, Ohio
Management's Discussion and Analysis
For the Year Ended December 31, 2001
Unaudited

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

	Governmental Activities	
	2001	2000
General Obligation Bonds	\$16,010,510	\$16,815,716
Special Assessment Bonds	1,619,490	1,706,284
Notes	10,600,000	8,100,000
Police and Fire Loan	712,359	721,874
Loans Payable	0	178,812
Claims	203,326	443,258
Compensated Absences	3,786,027	3,481,470
Total	\$32,931,712	\$31,447,414

The increase in notes identified above is due to the issuance of a new \$2,500,000 note issue to finance various City construction projects. In the future, upon completion of these projects, the actual construction costs will be bonded in a long term financing instrument.

The police and fire loan shown in Table 4 above, in the amount of \$712,359, identifies the City's accrued liability incurred when the State of Ohio established the statewide pension system for police and firefighters in 1967. Actual cash demands, for principal and interest, for this obligation total \$40,094 annually through the year 2035.

The claims payable identified above refers to the State Workers' Compensation retrospective rating and payment system. This plan involves the payment of a minimum premium for administrative services and stop-loss coverage plus the actual claim costs for employees injured in 2001.

The compensated absences liability identified above refers to the current balance of what has been earned as a termination benefit that will be paid over time as people leave or retire. An analysis of the past three years of pay outs of accumulated banks shows that, on average the City paid out \$97,800 annually for actual compensated absence payments. Additionally, slightly over \$505,400 of this liability refers to vacation pay for security of persons and property employees. Under GAAP reporting, this liability must be reported as a compensated absence at year-end, due to contract language to the effect that the employee has "earned" this compensation. The City budgets for this portion of the liability annually, in the current years departmental salary and wages budgets.

Current Financial Related Activities

As is the case with many governmental agencies, dated infrastructure can be a problem, however, over the past 15 years, the City has taken a proactive stance in regards to dated infrastructure and plans to continue this effort of improving infrastructure as the need arises.

City of Garfield Heights, Ohio
Management's Discussion and Analysis
For the Year Ended December 31, 2001
Unaudited

Annually the City's engineer inspects roadways and suggests the worst for repair. For the period 1985 to 2000, the City expended, on average, \$750,000 annually on various roadway-maintenance resurfacing projects. During 2001, the City's roadway maintenance program totaled \$960,198. Additionally, over the past ten years, the City has converted two of the last three septic sanitary tank areas, to sanitary sewer service. This development has been accomplished through the use of Federal and State grant funding; the issuance of special assessment bond issues, payable over 20 years by the affected property owners; and the issuance of general obligation debt.

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

The City has also purchased and paid cash for over two million dollars worth of vehicles and equipment over the past five years. Some of the items included in these purchases have been: a new Pumper truck and ambulance for the fire department; on average seven new police cruisers per year; three new 13-passenger buses for senior citizen programs; and a variety of pickup trucks, vans, salt trucks, low pro dump trucks, and other road and non-road equipment for service and recreation departments. New network computer systems for the City's police department, municipal court system, and main administrative operations were also purchased throughout this time period.

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

New development and expansion, under the zoning districts identified above, is continuing in the Broadway Ave./McCracken Road Development District. In the fall of 2000 another newly constructed facility was completed in this area and occupancy by the owner took place. Currently, the City is in the process of amassing a three-acre plot of land through our Land Revitalization Program. This plot will be combined with another five-acre plot that is currently in the Land Program, to be offered by the City for future development. Another factor that the City expects to increase development in this district over the next five – ten years is the decision, during 2001 by the Norfolk/Southern Railroad to locate a new Intermodal Facility off Broadway Avenue in our sister City of Maple Heights. This facility is located about a mile and a half from the Garfield Heights border. Access to the Interstate Highway system from this location is via the Broadway Avenue entrance, which is in Garfield Heights. This facility was constructed through the summer of 2001 and was operational in late fall 2001. The City's projection of increased development in this area, due to the Intermodal Facility, has already started. One company has already purchased the vacant property at the intersection of Broadway and McCracken Roads, and has plans on the table for an 8500 square feet Office/Warehouse facility. Another contractor has amassed a 20-acre block of land in this area for future development. In addition to this private investment in this area, the City has recently been granted both a State Issue II and a Community Development Block Grant for the reconstruction of the East 131st Street/Broadway Intersection. This improvement will help to spur the development in the Broadway Corridor

City of Garfield Heights, Ohio
Management's Discussion and Analysis
For the Year Ended December 31, 2001
Unaudited

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

New development and expansion is also continuing in the I-480/Transportation Development District. Through the 1990's, the City's economic development programs were responsible for the development of five multi-million dollar Office/Flex Space facilities in this development district. Currently, the first of another two building site was recently completed and is approximately 50 percent occupied. The plans for the second building have been approved. Additionally, the City was again successful in rezoning a section of this area from residential to the U11 designation. A developer has now amassed this plot of land for future development, which will become a part of the proposed "Rockside Vista" development project. The local land owner/developer proposed this projected, U11-A: Office Park development during the late 1990's. It involves the extension of Transportation Boulevard through to Rockside Road and will encompass the development of 600 acres of undeveloped land, 200 acres in Garfield Heights and 400 acres in the neighboring community of Valley View. The proposed project will entail the construction of 6 million square feet of building space, which will include office, convention, light industry, hotel, and restaurant space. This project is estimated to cost \$1 billion-plus, and will be constructed over a 10-year period. In April of 2001, the City and developer received the final EPA approval for this project, as it also encompasses the reclamation of 200 acres of brownfield landfill property. On May 18, 2001 there was a ceremonial ground breaking ceremony, and the developer set a start date for the project of June 2001. During 2001, the developer completed the first phase of the landfill reclamation process.

Contacting the City's Finance Department

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

The City of Garfield Heights would like to personally thank Mr. Jim Petro, State Auditor, and his staff for their involvement and tremendous amount of help in putting together these statements.

City of Garfield Heights, Ohio

Statement of Net Assets

December 31, 2001

	<u>Governmental Activities</u>
Assets	
Equity in Pooled Cash and Cash Equivalents	\$1,270,732
Cash and Cash Equivalents With Fiscal Agents	5,972
Accounts Receivable	145,062
Intergovernmental Receivable	2,427,723
Prepaid Items	83,675
Materials and Supplies Inventory	122,720
Taxes Receivable	10,106,184
Special Assessments Receivable	1,619,490
Land and Construction in Progress	1,414,430
Depreciable Capital Assets, Net	<u>38,178,346</u>
<i>Total Assets</i>	<u>55,374,334</u>
Liabilities	
Accounts Payable	484,220
Contracts Payable	777,379
Accrued Wages	176,661
Retainage Payable	518,303
Intergovernmental Payable	900,051
Deferred Revenue	8,409,393
Matured Bonds and Interest Payable	5,972
Accrued Interest Payable	325,481
Notes Payable	4,600,000
Claims Payable	172,470
Long-Term Liabilities:	
Due Within One Year	1,142,337
Due In More Than One Year	<u>27,189,375</u>
<i>Total Liabilities</i>	<u>44,701,642</u>
Net Assets	
Invested in Capital Assets, Net of Related Debt	13,462,776
Restricted for:	
Debt Service	1,988,370
Other Purposes	143,391
Unrestricted (Deficit)	<u>(4,921,845)</u>
<i>Total Net Assets</i>	<u><u>\$10,672,692</u></u>

See accompanying notes to the basic financial statements

City of Garfield Heights, Ohio
Statement of Activities
For the Year Ended December 31, 2001

	Program Revenues			Net (Expense) Revenue and Changes in Net Assets	
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities
Governmental Activities:					
General Government	\$9,517,049	\$2,205,821	\$370	\$56,156	(\$7,254,702)
Security of Persons and Property	10,044,831	649,024	35,249	0	(9,360,558)
Public Health Services	535,993	350,158	0	0	(185,835)
Transportation	2,560,241	0	69,444	0	(2,490,797)
Community Development	265,079	0	149,803	0	(115,276)
Basic Utility Services	2,458,351	20,061	0	0	(2,438,290)
Leisure Time Activities	1,199,089	621,829	0	0	(577,260)
Interest and Fiscal Charges	1,295,753	0	0	0	(1,295,753)
<i>Totals</i>	<u>\$27,876,386</u>	<u>\$3,846,893</u>	<u>\$254,866</u>	<u>\$56,156</u>	<u>(23,718,471)</u>
		General Revenues			
		Property Taxes Levied for:			
		General Purposes			5,367,815
		Other Purposes			714,602
		Debt Service			1,043,432
		Capital Outlay			376,106
		Income Tax Levied for:			
		General Purposes			6,472,336
		Other Purposes			1,003,570
		Debt Service			604,084
		Capital Outlay			501,785
		Grants and Entitlements not Restricted to Specific Programs			4,835,388
		Investment Earnings			128,915
		Miscellaneous			1,291,204
		<i>Total General Revenues</i>			<u>22,339,237</u>
		Change in Net Assets			(1,379,234)
		<i>Net Assets Beginning of Year - (See Note 4)</i>			<u>12,051,926</u>
		<i>Net Assets End of Year</i>			<u><u>\$10,672,692</u></u>

See accompanying notes to the basic financial statements

City of Garfield Heights, Ohio

Balance Sheet

Governmental Funds

December 31, 2001

	<u>General</u>	<u>Bond Retirement</u>	<u>Various Improvement</u>	<u>Service Center</u>
Assets				
Equity in Pooled Cash and Cash Equivalents	\$368,336	\$112,663	\$0	\$0
Cash and Cash Equivalents With Fiscal Agents	0	5,972	0	0
Receivables:				
Taxes	7,401,804	1,139,081	0	0
Accounts	111,284	0	0	0
Intergovernmental	1,714,704	64,782	0	0
Special Assessments	0	1,619,490	0	0
Interfund Receivable	59,111	0	482,493	0
Prepaid Items	82,877	0	0	0
Materials and Supplies Inventory	17,529	0	0	0
<i>Total Assets</i>	<u>\$9,755,645</u>	<u>\$2,941,988</u>	<u>\$482,493</u>	<u>\$0</u>
Liabilities				
Accounts Payable	\$224,650	\$0	\$112,566	\$0
Contracts Payable	1,747	0	394,096	259,830
Accrued Wages	141,870	0	0	0
Retainage Payable	0	0	187,826	305,954
Intergovernmental Payable	261,412	1,598	0	0
Interfund Payable	0	0	0	694,864
Deferred Revenue	8,182,939	2,772,833	0	0
Matured Bonds and Interest Payable	0	5,972	0	0
Accrued Interest Payable	0	0	55,747	0
Notes Payable	0	0	2,500,000	0
Claims Payable	140,135	0	0	0
<i>Total Liabilities</i>	<u>8,952,753</u>	<u>2,780,403</u>	<u>3,250,235</u>	<u>1,260,648</u>
Fund Balances				
Reserved for Encumbrances	17,039	0	0	0
Reserved for Inventory	17,529	0	0	0
Unreserved, Undesignated, Reported in:				
General Fund	768,324	0	0	0
Special Revenue Funds	0	0	0	0
Debt Service Funds	0	161,585	0	0
Capital Projects Funds (Deficit)	0	0	(2,767,742)	(1,260,648)
<i>Total Fund Balances (Deficit)</i>	<u>802,892</u>	<u>161,585</u>	<u>(2,767,742)</u>	<u>(1,260,648)</u>
<i>Total Liabilities and Fund Balances</i>	<u>\$9,755,645</u>	<u>\$2,941,988</u>	<u>\$482,493</u>	<u>\$0</u>

See accompanying notes to the basic financial statements

City of Garfield Heights, Ohio
*Reconciliation of Total Governmental Fund Balances to
 Net Assets of Governmental Activities
 December 31, 2001*

Other Governmental Funds	Total Governmental Funds		
		Total Governmental Fund Balances	(\$5,150,948)
		<i>Amounts reported for governmental activities in the statement of net assets are different because</i>	
\$789,733	\$1,270,732	Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds	39,592,776
0	5,972		
1,565,299	10,106,184	Other long-term assets are not available to pay for current-period expenditures and therefore are deferred in the funds:	
33,778	145,062	Property Taxes	322,230
648,237	2,427,723	Grants	80,014
0	1,619,490	Income Taxes	1,462,848
212,371	753,975	Intergovernmental	1,873,634
798	83,675	Charges for Services	15,508
105,191	122,720	Special Assessments	1,619,490
<u>\$3,355,407</u>	<u>\$16,535,533</u>		
		Total	5,373,724
\$147,004	\$484,220	Due to other governments includes contractually required pension contributions not expected to be paid with expendable available financial resources and therefore not reported in the funds.	(589,203)
121,706	777,379		
34,791	176,661	In the statement of activities, interest is accrued on outstanding bonds, whereas in governmental funds, an interest expenditure is reported when due.	(221,945)
24,523	518,303		
47,838	310,848	Long-term liabilities, including bonds payable and accrued interest payable, are not due and payable in the current period and therefore are not reported in the funds:	
59,111	753,975	General Obligation Bonds	(16,010,510)
2,827,345	13,783,117	Special Assessment Bonds	(1,619,490)
0	5,972	Notes Payable	(6,000,000)
47,789	103,536	Compensated Absences	(3,786,027)
2,100,000	4,600,000	Police and Fire Liability	(712,359)
32,335	172,470	Claims	(203,326)
<u>5,442,442</u>	<u>21,686,481</u>		
6,717	23,756	Total	(28,331,712)
105,191	122,720		
0	768,324	<i>Net Assets of Governmental Activities</i>	<u>\$10,672,692</u>
605,442	605,442		
0	161,585		
<u>(2,804,385)</u>	<u>(6,832,775)</u>		
<u>(2,087,035)</u>	<u>(5,150,948)</u>		
<u>\$3,355,407</u>	<u>\$16,535,533</u>		

City of Garfield Heights, Ohio
Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds
For the Year Ended December 31, 2001

	General	Bond Retirement	Various Improvement	Service Center
Revenues				
Property and Other Taxes	\$5,473,805	\$1,061,568	\$0	\$0
Municipal Income Taxes	6,929,173	646,722	0	0
Special Assesments	0	86,794	0	0
Charges for Services	1,727,299	0	0	0
Fees, Licenses and Permits	178,881	0	0	0
Fines and Forfeitures	568,520	0	0	0
Intergovernmental	3,254,707	29,559	0	0
Interest	27,236	100,005	0	0
Rentals	27,955	0	0	0
Franchise Fees	202,125	0	0	0
Other	632,515	0	419,963	0
<i>Total Revenues</i>	<u>19,022,216</u>	<u>1,924,648</u>	<u>419,963</u>	<u>0</u>
Expenditures				
Current:				
General Government	7,563,654	22,609	0	0
Security of Persons and Property:	8,413,452	0	0	0
Public Health Services	177,723	0	0	0
Transportation	0	0	0	0
Community Development	103,932	0	0	0
Basic Utility Service	1,392,459	0	0	0
Leisure Time Activities	0	0	0	0
Capital Outlay	0	0	3,131,958	1,701,898
Debt Service:				
Principal Retirement	18,186	892,000	0	0
Interest and Fiscal Charges	1,020	928,806	55,747	64,750
<i>Total Expenditures</i>	<u>17,670,426</u>	<u>1,843,415</u>	<u>3,187,705</u>	<u>1,766,648</u>
<i>Excess of Revenues Over (Under) Expenditures</i>	<u>1,351,790</u>	<u>81,233</u>	<u>(2,767,742)</u>	<u>(1,766,648)</u>
Other Financing Sources (Uses)				
Sale of Fixed Assets	45,854	0	0	0
Proceeds of Notes	0	0	0	6,000,000
Transfers In	0	310,000	0	315,000
Transfers Out	(1,657,059)	(420,459)	0	0
<i>Total Other Financing Sources (Uses)</i>	<u>(1,611,205)</u>	<u>(110,459)</u>	<u>0</u>	<u>6,315,000</u>
<i>Net Change in Fund Balances</i>	(259,415)	(29,226)	(2,767,742)	4,548,352
<i>Fund Balances (Deficit)</i>				
<i>Beginning of Year</i>	1,062,153	190,811	0	(5,809,000)
Increase in Reserve for Inventory	154	0	0	0
<i>Fund Balances (Deficit) End of Year</i>	<u>\$802,892</u>	<u>\$161,585</u>	<u>(\$2,767,742)</u>	<u>(\$1,260,648)</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, 2001*

Other Governmental Funds	Total Governmental Funds		
		Net Change in Fund Balances - Total Governmental Funds	\$2,031,157
		<i>Amounts reported for governmental activities in the statement of activities are different because</i>	
\$1,112,263	\$7,647,636	Governmental funds report capital outlays as expenditures.	
1,614,996	9,190,891	However, in the statement of activities, the cost of those	
0	86,794	assets is allocated over their estimated useful lives as	
606,481	2,333,780	depreciation expense. This is the amount by which capital	
44,073	222,954	outlays exceeded depreciation in the current period.	
464,177	1,032,697	Capital Outlay	4,344,700
1,204,175	4,488,441	Depreciation	(1,769,277)
1,674	128,915	Total	2,575,423
45,000	72,955	Governmental funds only report the disposal of fixed assets to the	
0	202,125	extent proceeds are received from the sale. In the statement of	
238,726	1,291,204	activities, a gain or loss is reported for each disposal.	(158,062)
5,331,565	26,698,392	Governmental funds report expenditures for inventory when purchased	
		However, in the statement of activities, they are reported as an	
0	7,586,263	expense when consumed.	86,021
1,155,924	9,569,376	Revenues in the statement of activities that do not provide current	
317,746	495,469	financial resources are not reported as revenues in the funds.	
1,657,794	1,657,794	Property Taxes	(145,681)
153,259	257,191	Special Assessments	(86,794)
487,031	1,879,490	Income Tax	(609,116)
997,065	997,065	Intergovernmental	657,969
1,217,968	6,051,824	Charges for Services	(17,618)
170,141	1,080,327	Total	(201,240)
106,398	1,156,721	Proceeds of notes are reported as other financing sources in the	
6,263,326	30,731,520	governmental funds but increase long-term liabilities in the	
		statement of net assets.	(6,000,000)
(931,761)	(4,033,128)	Repayment of long-term obligations is an expenditure in the	
		governmental funds, but the repayment reduces long-term liabilities	
18,431	64,285	in the statement of net assets.	1,080,327
0	6,000,000	In the statement of activities, interest is accrued on outstanding bonds,	
1,762,518	2,387,518	whereas in governmental funds, an interest expenditure is reported	
(310,000)	(2,387,518)	when due.	(139,032)
1,470,949	6,064,285	Some expenses reported in the statement of activities, such as	
		compensated absences and intergovernmental payable (which	
539,188	2,031,157	represent contractually required pension contributions) do not	
		require the use of current financial resources and therefore are not	
(2,712,090)	(7,268,126)	reported as expenditures in governmental funds.	
85,867	86,021	Compensated Absences	(304,557)
(\$2,087,035)	(\$5,150,948)	Pension Obligation	(589,203)
		Claims Payable	239,932
		Total	(653,828)
		<i>Change in Net Assets of Governmental Activities</i>	<i>(\$1,379,234)</i>

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, 2001

	Budgeted Amounts			Variance with Final Budget Positive (Negative)
	Original	Final	Actual	
Revenues				
Property and Other Taxes	\$5,446,537	\$5,609,294	\$5,528,954	(\$80,340)
Municipal Income Taxes	6,750,000	6,750,000	6,757,232	7,232
Charges for Services	1,562,341	1,702,574	1,695,694	(6,880)
Fees, Licenses and Permits	157,728	171,861	179,811	7,950
Fines and Forfeitures	498,698	568,520	568,520	0
Intergovernmental	3,096,503	3,436,536	3,443,335	6,799
Interest	23,891	27,500	27,236	(264)
Rentals	24,522	31,208	27,955	(3,253)
Franchise Fees	177,301	202,125	202,125	0
Other	576,666	658,070	627,917	(30,153)
<i>Total Revenues</i>	<u>18,314,187</u>	<u>19,157,688</u>	<u>19,058,779</u>	<u>(98,909)</u>
Expenditures				
Current:				
General Government	7,191,847	7,576,689	7,592,883	(16,194)
Security of Persons and Property	7,995,458	8,397,729	8,435,927	(38,198)
Public Health and Welfare	164,684	178,098	173,258	4,840
Community Environment	97,263	102,205	104,471	(2,266)
Basic Utility Service	1,318,361	1,388,925	1,387,000	1,925
<i>Total Expenditures</i>	<u>16,767,613</u>	<u>17,643,646</u>	<u>17,693,539</u>	<u>(49,893)</u>
<i>Excess of Revenues Over Expenditures</i>	<u>1,546,574</u>	<u>1,514,042</u>	<u>1,365,240</u>	<u>(148,802)</u>
Other Financing Sources (Uses)				
Proceeds from Sale of Fixed Assets	0	0	45,854	45,854
Transfers Out	(1,657,059)	(1,664,290)	(1,657,059)	7,231
<i>Total Other Financing Sources (Uses)</i>	<u>(1,657,059)</u>	<u>(1,664,290)</u>	<u>(1,611,205)</u>	<u>53,085</u>
<i>Net Change in Fund Balance</i>	(110,485)	(150,248)	(245,965)	(95,717)
<i>Fund Balance Beginning of Year</i>	213,593	213,593	213,593	0
Prior Year Encumbrances Appropriated	90,547	90,547	90,547	0
<i>Fund Balance End of Year</i>	<u>\$193,655</u>	<u>\$153,892</u>	<u>\$58,175</u>	<u>(\$95,717)</u>

See accompanying notes to the basic financial statements

City of Garfield Heights, Ohio
Statement of Fiduciary Assets and Liabilities
Agency Funds
December 31, 2001

	<u>Agency</u>
Assets	
Cash and Cash Equivalents in Segregated Accounts	<u>\$323,497</u>
Liabilities	
Deposits Held and Due to Others	<u>\$323,497</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, 2001

Note 1 - Description of the City and Reporting Entity

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

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

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

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

Reporting Entity

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

Component units are legally separate organizations for which the City is financially accountable. The City is financially accountable for an organization if the City appoints a voting majority of the organization's governing board and (1) the City is able to significantly influence the programs or services performed or provided by the organization; or (2) the City is legally entitled to or can otherwise access the organization's resources; the City is legally obligated or has otherwise assumed the responsibility to finance the deficits of, or provide financial support to, the organization; or the City is obligated for the debt of the organization. Component units may also include organizations which are fiscally dependent on the City in that the City approves the budget, the issuance of debt or the levying of taxes. The City has no component units.

The City participates in the Northeast Ohio Public Energy Council and the First Suburbs Consortium of Northeast Ohio Council of Governments, jointly governed organizations. Information about the organizations is presented in Note 16 to the basic financial statements.

Note 2 - Summary of Significant Accounting Policies

The financial statements of the City of Garfield Heights have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The City also applies Financial Accounting Standards Board (FASB) Statements and Interpretations issued on or before November 30, 1989, to its governmental activities provided they do not conflict with or contradict GASB pronouncements. 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, 2001

A. Basis of Presentation

The City's basic financial statements consist of government-wide statements, including a Statement of Net Assets and a Statement of Activities, and fund financial statements which provide a more detailed level of financial information.

Government-wide Financial Statements The statement of net assets and the statement of activities display information about the City as a whole. These statements include the financial activities of the primary government, except for fiduciary funds.

The statement of net assets presents the financial condition of the governmental type activities of the City at year-end. The statement of activities presents a comparison between direct expenses and program revenues for each program or function of the City's governmental activities. Direct expenses are those that are specifically associated with a service, program or department and therefore are clearly identifiable to a particular function. Program revenues include charges paid by the recipient of the goods or services offered by the program, grants and contributions that are restricted to meeting the operational or capital requirements of a particular program and interest earned on grants that is required to be used to support a particular program. Revenues which are not classified as program revenues are presented as general revenues of the City, with certain limited exceptions. The comparison of direct expenses with program revenues identifies the extent to which each governmental function is self-financing or draws from the general revenues of the City.

Fund Financial Statements During the year, the City segregates transactions related to City functions or activities in separate funds in order to aid financial management and to demonstrate legal compliance. Fund financial statements are designed to present financial information of the City at this more detailed level. The focus of governmental fund financial statements is on major funds. Each major fund is presented in a separate column. Nonmajor funds are aggregated and presented in a single column. Fiduciary funds are reported by type.

B. Fund Accounting

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

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

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

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

Various Improvement Note Fund The various improvement fund accounts for note proceeds to be used for the repair, construction, or improvement of streets.

City of Garfield Heights, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2001

Service Center Note Fund The service center fund accounts for note proceeds to be used to construct a service center facility.

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

Fiduciary Fund

Fiduciary fund reporting focuses on net assets and changes in net assets. The fiduciary fund category is split into four classifications: pension trust funds, investment trust funds, private purpose trust funds and agency funds. Trust funds are used to account for assets held by the City under a trust agreement for individuals, private organizations, or other governments and are therefore not available to support the City's own programs. The City has no trust funds. The City's agency funds are purely custodial (assets equal liabilities) and thus do not involve measurement of results of operations.

C. Measurement Focus

Government-wide Financial Statements The government-wide financial statements are prepared using the economic resources measurement focus. All assets and all liabilities associated with the operation of the City are included on the Statement of Net Assets.

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

D. Basis of Accounting

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

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

Nonexchange transactions, in which the City receives value without directly giving equal value in return, include income taxes, property taxes, grants, entitlements and donations. On an accrual basis, revenue from income taxes is recognized in the period in which the income is earned. Revenue from property taxes is recognized in the fiscal year for which the taxes are levied. See Note 7. Revenue from grants, entitlements and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the year when use is first permitted, matching requirements, in which the City must provide local resources to be used for a specified purpose, and expenditure requirements, in

City of Garfield Heights, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2001

which the resources are provided to the City on a reimbursement basis. On a modified accrual basis, revenue from nonexchange transactions must also be available before it can be recognized.

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

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

Property taxes for which there is an enforceable legal claim as of December 31, 2001, but which were levied to finance year 2002 operations, have been recorded as deferred revenue. Grants and entitlements received before the eligibility requirements are met are also recorded as deferred revenue.

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

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

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

E. Budgetary Process

All funds, except agency funds, are legally required to be budgeted and appropriated. The major documents prepared are the tax budget, the certificate of estimated resources, and the appropriations resolution, all of which are prepared on the budgetary basis of accounting. The tax budget demonstrates a need for existing or increased tax rates. The certificate of estimated resources establishes a limit on the amount Council may appropriate. The appropriations resolution is Council's authorization to spend resources and sets annual limits on expenditures plus encumbrances at the level of control selected by Council. The legal level of control has been established by Council at the 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 budgeted amounts on the budgetary statements reflect the amounts on the certificate of estimated resources when the original appropriations were adopted. The amounts reported as the final budgeted amounts on the budgetary statements reflect the amounts on the final amended certificate of estimated resources issued during 2001.

The appropriation resolution is subject to amendment throughout the year with the restriction that appropriations cannot exceed estimated resources. The amounts reported as the original budgeted amounts reflect the first appropriation resolution for that fund that covered the entire year, including amounts automatically carried forward from prior years. The amounts reported as the final budgeted amounts represent the final appropriation amounts passed by Council during the year.

F. Cash and Cash Equivalents

To improve cash management, cash received by the City is pooled. Monies for all funds are maintained in this pool. Individual fund integrity is maintained through the City's records. Interest in the pool is presented as "equity in pooled cash and cash equivalents". The City had no investments during the year or at year end.

City of Garfield Heights, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2001

Investment procedures are restricted by the provisions of the Ohio Revised Code. Interest revenue credited to the general fund during 2001 amounted to \$27,236, which includes \$7,895 assigned from other City funds.

The City utilizes a financial institution to service bonded debt as principal and interest come due. The balances of these accounts are presented as "Cash and Cash Equivalents with Fiscal Agents." The City has segregated bank accounts for monies held separate from the City's central bank account. These depository accounts are presented as "Cash and Cash Equivalents in Segregated Accounts" and represent deposits.

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

G. Inventory

On government-wide financial statements, inventories are presented at the lower of cost or market on a first-in, first-out basis and are expensed when used.

Inventories of governmental funds are stated at cost, determined on a first-in, first-out basis. The cost of inventory items is recorded as an expenditure in the governmental funds when purchased.

H. Prepaid Items

Payments made to vendors for services that will benefit periods beyond December 31, 2001 are recorded as prepaid items using the consumption method. A current asset for the prepaid amount is recorded at the time of purchase and an expenditure/expense is reported in the year in which services are consumed.

I. Capital Assets

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

All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. Donated fixed assets are recorded at their fair market values as of the date received. The City maintains a capitalization threshold of one thousand dollars. The City's infrastructure consists of roads, sanitary sewers, storm sewers and water supply lines. Improvements are capitalized; the costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not.

All reported 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:

City of Garfield Heights, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2001

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

J. 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.

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

K. Accrued and Long-term Obligations

All payables, accrued liabilities and long-term obligations are reported in the government-wide financial statements.

In general, governmental fund payables and accrued liabilities that, once incurred, are paid in a timely manner and in full from current financial resources, are reported as obligations of the funds. However, claims and judgments, compensated absences, special termination benefits and contractually required pension contributions that will be paid from governmental funds are reported as a liability in the fund financial statements only to the extent that they are due for payment during the current year. Bonds and long-term loans are recognized as a liability on the fund financial statements when due.

L. Fund Balance Reserves

The City reserves those portions of fund balance which are legally segregated for a specific future use or which do not represent expendable resources and therefore are not available for appropriation or expenditure. As a result, encumbrances and inventories are recorded as a reservation of fund balance.

M. Net Assets

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

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

City of Garfield Heights, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2001

N. Interfund Activity

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

O. Extraordinary and Special Items

Extraordinary items are transactions or events that are both unusual in nature and infrequent in occurrence. Special items are transactions or events that are within the control of the City Administration and that are either unusual in nature or infrequent in occurrence. Neither type of transaction occurred during 2001.

P. Estimates

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

Note 3 - 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 Balances - Budget (Non-GAAP Basis) and Actual - General Fund is presented on the budgetary basis to provide a meaningful comparison of actual results with the budget and to demonstrate compliance with State statute. The major differences between the budget basis and the GAAP basis (generally accepted accounting principles) are:

1. Revenues are recorded when received in cash (budget) as opposed to when susceptible to accrual (GAAP).
2. Expenditures are recorded when paid in cash (budget) as opposed to when the liability is incurred (GAAP).
3. Encumbrances are treated as expenditures (budget) rather than as a reservation of fund balance (GAAP).
4. Unrecorded cash represents amounts received but not included as revenue on the budget basis operating statements. These amounts are included as revenue on the GAAP basis operating statement.

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

City of Garfield Heights, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2001

Net Change in Fund Balance

	General
GAAP Basis	(\$259,415)
Net Adjustment for Revenue Accruals	97,643
Unrecorded Cash	(61,080)
Net Adjustment for Expenditure Accruals	27,679
Encumbrances	(50,792)
Budget Basis	(\$245,965)

Note 4 – Change in Accounting Principles and Restatement of Net Assets

A. Change in Accounting Principles

For 2001, the City has implemented GASB Statement No. 37, “Basic Financial Statements and Management’s Discussion and Analysis for State and Local Governments: Omnibus” and Statement No. 38, “Certain Financial Statement Note Disclosures”.

GASB Statement No. 37 clarifies certain provisions of Statement No. 34, including the required content of the MD&A, the classification of program revenues and the criteria for determining major funds. GASB Statement No. 38 modifies, establishes and rescinds certain financial statement note disclosures.

The implementation of these changes had no effect on fund balance/net assets as reported as of December 31, 2000.

B. Restatement of Net Assets

During 2001, it was determined capital assets were misstated. This restatement had the following effect on net assets as they were previously reported.

	Governmental Activities
Net Assets, December 31, 2000	\$13,751,005
Overstated Special Assessments	(1,465,536)
Overstated Capital Assets	(233,543)
Net Assets, December 31, 2000	\$12,051,926

City of Garfield Heights, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2001

Note 5 - Accountability and Compliance

A. Accountability

The following funds had deficit fund balances as of December 31, 2001:

<i>Special Revenue Funds</i>	
Federal Nutrition	\$8,573
Community Development	59,111
<i>Capital Projects Funds</i>	
Permanent Improvement	\$885,700
Street Resurfacing	2,257,905
Service Center Note	1,260,648
Various Improvements	2,767,742

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

Capital projects fund deficits are the result of the issuance of short-term bond anticipation notes which are used to finance the project until bonds are issued. Once the notes are retired or bonds are issued, these deficits will be eliminated.

B. Compliance

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

Fund/Program/Activity	Appropriations	Expenditures Plus Encumbrances	Excess
<i>General Fund</i>			
<i>General Government</i>			
Materials and Supplies	\$662,420	\$668,931	\$6,511
Contractual Services	1,964,013	1,979,737	15,724
Capital Outlay	128,796	141,584	12,788
Other	189,649	192,684	3,035
<i>Security of Persons and Property</i>			
Police and Fire Communication			
Personal Services	4,523,000	4,608,093	85,093
Materials and Supplies	43,000	63,399	20,399
Contractual Services	313,851	324,686	10,835
Fire Prevention			
Materials and Supplies	97,200	107,518	10,318
<i>Public Health Services</i>			
Materials and Supplies	4,150	4,482	332

City of Garfield Heights, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2001

Fund/Program/Activity	Appropriations	Expenditures Plus Encumbrances	Excess
General Fund			
<i>Community Environment</i>			
Personal Services	\$99,400	\$101,672	\$2,272
Special Revenue Funds			
Recreation			
<i>Leisure Time Activities</i>			
Materials and Supplies	174,472	175,662	1,190
Street, Construction, Maintenance and Repair			
<i>Transportation</i>			
Personal Services	1,077,564	1,091,102	13,538
Materials and Supplies	392,246	447,734	55,488
Contractual Services	239,338	248,215	8,877
Capital Outlay	36,643	37,103	460
Other	27,965	28,316	351
State Highway			
<i>Transportation</i>			
Materials and Supplies	5,988	11,545	5,557
Federal Nutrition			
<i>Health</i>			
Materials and Supplies	16,575	18,530	1,955
Contractual Services	33,804	34,497	693
Law Enforcement			
<i>Security of Persons and Property</i>			
Materials and Supplies	0	125	125
Capital Projects Fund			
Service Center Note			
<i>Capital Outlay</i>			
Contractual Services	1,382,793	2,077,658	694,865
Debt Service Fund			
Bond Retirement			
<i>Debt Service</i>			
Principal Retirement	889,795	892,000	2,205
Interest and Fiscal Charges	926,510	928,806	2,296

The federal nutrition special revenue fund had original appropriations in excess of original estimated resources plus available balances for fiscal year 2001 in the amount of \$27,367, contrary to Ohio Revised Code Section 5705.39.

The federal nutrition special revenue fund had final appropriations in excess of final estimated resources plus available balances for fiscal year 2001 in the amount of \$28,030, contrary to Ohio Revised Code Section 5705.39.

City of Garfield Heights, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2001

Although these budgetary violations were not corrected by fiscal year end, management has indicated that appropriations will be closely monitored to prevent future violations.

Note 6 - Deposits and Investments

State statutes classify monies held by the City into three categories.

Active deposits are public deposits necessary to meet current demands on the treasury. Such 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 two year period of designation of depositories. Inactive deposits must either be evidenced by certificates of deposit maturing not later than the end of the current period of designation of depositories, or by savings or deposit accounts including, but not limited to, passbook accounts.

Interim deposits are deposits of interim monies. Interim monies are those monies which are not needed for immediate use but which will be needed before the end of the current period of designation of depositories. Interim deposits must be evidenced by time certificates of deposit maturing not more than one year from the date of deposit or by savings or deposit accounts including pass book accounts.

Protection of the City's deposits is provided by the Federal Deposit Insurance Corporation, by eligible securities pledged by the financial institution as security for repayment, by Surety Company bonds deposited with the treasurer by the financial institution or by a single collateral pool established by the financial institution to secure the repayment of all public moneys deposited with the institution. Interim monies may be deposited or invested in the following securities:

1. United States Treasury Notes, Bills, Bonds, or any other obligation or security issued by the United States Treasury or any other obligation guaranteed as to 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, the Federal National Mortgage Association, Federal Home Loan Bank, Federal Farm Credit Bank, Federal Home Loan Mortgage Corporation, Government National Mortgage Association, and Student Loan Marketing Association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;
3. Written repurchase agreements in the securities listed above provided that 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 that the term of the agreement must not exceed thirty days;
4. Bonds and other obligations of the State of Ohio;
5. No-load money market mutual funds consisting exclusively of obligations described in division (1) or (2) of this section and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions; and,
6. The State Treasurer's investment pool (STAR Ohio).

City of Garfield Heights, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2001

The City may also invest any 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. Obligations of the City.

Investments in stripped principal or interest obligations, reverse repurchase agreements and derivatives are prohibited. The issuance of taxable notes for the purpose of arbitrage, the use of leverage and short selling are also prohibited. 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 qualified trustee or, if the securities are not represented by a certificate, upon receipt of confirmation of transfer from the custodian.

Cash on Hand. At year end, the City had \$184,740 in undeposited cash on hand which is included on the balance sheet as part of "equity pooled in cash and cash equivalents."

Deposits At year-end, the carrying amount of the City's deposits was \$1,415,461 and the bank balance was \$1,640,142. Of the bank balance, \$300,000 was covered by federal depository insurance and \$1,340,142 was uncollateralized and uninsured. Although the pledging bank has an investment and securities pool used to collateralize all public deposits which are held in the financial institution's name, noncompliance with federal requirements could potentially subject the City to a successful claim by the FDIC.

Note 7 - Receivables

Receivables at December 31, 2001 consisted primarily of taxes, intergovernmental receivables and special assessments. No allowances for doubtful accounts have been recorded as uncollectible amounts are expected to be insignificant.

Special assessments expected to be collected in more than one year amount to \$1,532,696 in the bond retirement fund. At December 31, 2001 the amount of delinquent special assessments was \$48,879.

A. Property Taxes

Property taxes include amounts levied against all real, public utility and tangible personal property located in the City. Property tax revenue received during 2001 for real and public utility property taxes represents collections of the 2000 taxes. Property tax payments received during 2000 for tangible personal property (other than public utility property) are for 2001 taxes.

2001 real property taxes are levied after October 1, 2001 on the assessed value as of January 1, 2001, the lien date. Assessed values are established by State law at 35 percent of appraised market value. 2001 real property taxes are collected in and intended to finance 2002.

City of Garfield Heights, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2001

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. 2001 public utility property taxes which became a lien December 31, 2000, are levied after October 1, 2001, and are collected in 2002 with real property taxes.

2001 tangible personal property taxes are levied after October 1, 2000, on the value as of December 31, 2000. Collections are made in 2001. Tangible personal property assessments are 25 percent of true value.

The full tax rate for all City operations for the year ended December 31, 2001, was \$19.60 per \$1,000 of assessed value. The assessed values of real and tangible personal property upon which 2001 property tax receipts were based are as follows:

Real Property:	
Agricultural/Residential	\$318,950,310
Other Real Estate	73,806,470
Public Utility	17,197,880
Tangible Personal Property	36,897,503
Total Assessed Value	<u>\$446,852,163</u>

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

Tangible personal property taxes paid by multi-county taxpayers are due September 20. Single county taxpayers may pay annually or semiannually. If paid annually, payment is due April 30; if paid semiannually, the first payment is due April 30; with the remainder payable by September 20.

The County Treasurer collects property taxes on behalf of all taxing districts in the county, including the City of Garfield Heights. The County Auditor periodically remits to the City its portion of the taxes collected. Property taxes receivable represents real and tangible personal property taxes, public utility taxes and outstanding delinquencies which are measurable as of December 31, 2001, and for which there is an enforceable legal claim. In the general, bond retirement, fire pension, police pension, recreation, street lights, and permanent improvement funds, the entire receivable has been offset by deferred revenue since the current taxes were not levied to finance 2001 operations and the collection of delinquent taxes during the available period is not subject to reasonable estimation. On a full accrual basis, collectible delinquent property taxes have been recorded as revenue while the remainder of the receivable is deferred.

B. Income Taxes

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

City of Garfield Heights, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2001

C. Intergovernmental Receivables

A summary of the principal items of intergovernmental receivables follows:

	Amount
Governmental Activities:	
Local Government	\$1,019,547
Homestead and Rollback	520,378
Gas Tax	402,913
Municipal Court Costs Reimbursements	159,194
Estate Tax	124,091
Permissive Motor Vehicle License Tax	94,176
Grants	81,908
City of Bedford	12,705
Liquor Permit Fees	7,248
Immobilization Fees	4,400
Hotel/Motel Tax	1,116
Cigarette Tax	47
	\$2,427,723
<i>Total Intergovernmental Receivables</i>	

Note 8 - Capital Assets

Capital asset activity for the year ended December 31, 2001, was as follows:

	Balance 12/31/00	Additions	Deductions	Balance 12/31/01
Governmental Activities				
Capital Assets, Not Being Depreciated				
Land	\$1,291,648	\$126,186	(\$3,404)	\$1,414,430
Construction in Progress	6,006,149	1,503,569	(7,509,718)	0
	7,297,797	1,629,755	(7,513,122)	1,414,430
Capital Assets, Being Depreciated				
Buildings	\$8,514,138	\$7,509,718	(\$175,736)	15,848,120
Improvements Other than Buildings	3,776,440	0	0	3,776,440
Vehicles	3,668,070	587,858	(319,922)	3,936,006
Machinery and Equipment	3,302,023	375,551	(269,573)	3,408,001
Furniture and Fixtures	572,197	53,026	(17,457)	607,766
Infrastructure				
Roads	18,614,945	1,372,120	0	19,987,065
Sanitary Sewers	3,274,217	0	0	3,274,217
Storm Sewers	1,171,516	0	0	1,171,516
Water Supply Lines	335,251	326,390	0	661,641
	\$43,228,797	\$10,224,663	(\$782,688)	\$52,670,772
<i>Total Capital Assets, Being Depreciated</i>				

City of Garfield Heights, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2001

	Balance 12/31/00	Additions	Deductions	Balance 12/31/01
Less Accumulated Depreciation:				
Buildings	(\$2,748,837)	(\$270,876)	\$144,197	(\$2,875,516)
Improvements Other than Buildings	(1,046,573)	(98,910)	0	(1,145,483)
Vehicles	(2,012,323)	(274,118)	293,729	(1,992,712)
Machinery and Equipment	(1,601,431)	(230,517)	186,215	(1,645,733)
Furniture and Fixtures	(274,346)	(23,933)	3,889	(294,390)
Infrastructure				
Roads	(5,075,390)	(772,040)	0	(5,847,430)
Sanitary Sewers	(378,188)	(65,484)	0	(443,672)
Storm Sewers	(168,740)	(23,430)	0	(192,170)
Water Supply Lines	(45,351)	(9,969)	0	(55,320)
Total Accumulated Depreciation	<u>(13,351,179)</u>	<u>(1,769,277) *</u>	<u>628,030</u>	<u>(14,492,426)</u>
Total Capital Assets being Depreciated, Net	<u>29,877,618</u>	<u>8,455,386</u>	<u>(154,658)</u>	<u>38,178,346</u>
Governmental Activities				
Capital Assets, Net	<u>\$37,175,415</u>	<u>\$10,085,141</u>	<u>(\$7,667,780)</u>	<u>\$39,592,776</u>

* Depreciation expense was charged to governmental functions as follows:

General Government	\$340,336
Security of Persons and Property	313,081
Public Health Services	47,200
Transportation	847,167
Community Development	342
Basic Utility Service	112,429
Leisure Time Activities	108,722
Total Depreciation Expense	<u>\$1,769,277</u>

Note 9 - Note Debt

The City's note activity for the year ended December 31, 2001 is as follows:

	Balance 12/31/00	Additions	(Reductions)	Outstanding 12/31/01
Capital Projects Funds:				
Street Resurfacing:				
4.86% Street Improvement	\$1,200,000	\$1,200,000	(\$1,200,000)	\$1,200,000
4.65% Street Improvement	900,000	900,000	(900,000)	900,000
Various Improvement Note 2001				
3.25 % Various Improvement	0	2,500,000	0	2,500,000
Service Center Note 2000				
5.25% Municipal Service Center	6,000,000	0	(6,000,000)	0
Total Notes	<u>\$8,100,000</u>	<u>\$4,600,000</u>	<u>(\$8,100,000)</u>	<u>\$4,600,000</u>

In 2001, the City issued \$1,200,000 and \$900,000 in Street Improvement Notes to refinance the upkeep of City roads. These projects have been completed by December 31, 2001.

In 2001, the City issued \$2,500,000 in Various Improvement Notes to refinance various projects such as the Fire Station 2 renovation, waterline construction, Broadway Road rehabilitation construction and street resurfacing. These projects have been completed by December 31, 2001.

City of Garfield Heights, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2001

All notes are backed by the full faith and credit of the City of Garfield Heights and mature within one year. The note liability is reflected in the fund which received the proceeds. The notes are generally issued in anticipation of long-term bond financing and are refinanced until such bonds are issued.

Note 10 - Long-Term Obligations

Changes in long-term obligations of the City during the year ended December 31, 2001 were as follows:

	Outstanding 12/31/00	Additions	(Reductions)	Outstanding 12/31/01	Amounts Due in One Year
<i>Governmental Activities</i>					
<i>General Obligation Bonds:</i>					
1986 7.25% \$1,450,000					
Street Improvement	\$450,000	\$0	(\$75,000)	\$375,000	\$75,000
1994 4.05% - 6.3% \$3,800,000					
Various Purpose Improvement	2,800,000	0	(135,000)	2,665,000	145,000
1996 4.7% - 6.625% \$810,000					
Various Purpose - Canal Warner	33,166	0	(1,383)	31,783	1,383
1996 4.7% - 6.625% \$610,000					
Various Purpose - Sunset	82,550	0	(3,823)	78,727	3,823
1996 4.7% - 6.625% \$3,190,000					
Various Purpose - Streets	2,995,000	0	(65,000)	2,930,000	130,000
1998 3.65% - 4.6% \$2,645,000					
Justice Center Refunding	2,510,000	0	(235,000)	2,275,000	250,000
1998 3.65% - 4.6% \$3,775,000					
Civic Center Refunding	3,775,000	0	(130,000)	3,645,000	180,000
1998 3.6% - 4.6% \$4,460,000					
Various Improvements	4,170,000	0	(160,000)	4,010,000	165,000
<i>Total General Obligation Bonds</i>	16,815,716	0	(805,206)	16,010,510	950,206
<i>Special Assessment Bonds:</i>					
1986 7.75% \$230,000					
Johnston/Rockside Improvement	72,000	0	(12,000)	60,000	12,000
1994 4.05% - 6.3% \$606,000					
Neo Parkway Improvement	490,000	0	(25,000)	465,000	25,000
1996 4.7% - 6.625% \$810,000					
Various Purpose - Canal Warner	686,834	0	(28,617)	658,217	28,617
1996 4.7% - 6.625% \$610,000					
Various Purpose - Sunset	457,450	0	(21,177)	436,273	21,177
<i>Total Special Assessment Bonds</i>	\$1,706,284	\$0	(\$86,794)	\$1,619,490	\$86,794

City of Garfield Heights, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2001

	Outstanding 12/31/00	Additions	(Reductions)	Outstanding 12/31/01	Amounts Due in One Year
Other Governmental Activities:					
Notes Payable	\$0	\$6,000,000	\$0	\$6,000,000	\$0
Compensated Absences Payable	3,481,470	361,144	(56,587)	3,786,027	86,648
Claims Payable	443,258	39,042	(278,974)	203,326	8,766
Police and Fire Pension Liability	721,874	0	(9,515)	712,359	9,923
Loans Payable 9.0%	178,812	0	(178,812)	0	0
Total Governmental Activities	\$23,347,414	\$6,400,186	(\$1,415,888)	\$28,331,712	\$1,142,337

General obligation bonds will be paid from the general bond retirement debt service fund. Special assessment bonds will be paid from the proceeds of special assessments levied against benefited property owners. In the event that a property owner would fail to pay the assessment, payment would be made by the City. Compensated absences and claims will be paid from the general fund, recreation, street, construction, maintenance and repair, federal nutrition, municipal court probation special revenue funds, and storm and sanitary sewer and municipal court capital improvement capital projects funds from which the employees' salaries are paid. The police and fire pension liability will be paid from taxes received in the police and fire pension special revenue funds. This includes an accrued liability incurred when the State of Ohio established the statewide pension system for police and firefighters. The loan payable was paid from revenues received in the general and permanent improvement capital projects funds.

The \$6,000,000 service center note issued at 5.25 percent and outstanding at December 31, 2001, was bonded, on April 4, 2002, into a \$7,300,000 general obligation bond issued at 1.9 percent to 5 percent variable rate.

The City's overall legal debt margin was \$20,470,552 at December 31, 2001. Principal and interest requirements to retire long-term obligations outstanding at December 31, 2001 are as follows:

	General Obligation Bonds		Special Assessment Bonds		Police and Fire Pension		Totals
	Principal	Interest	Principal	Interest	Principal	Interest	
2002	\$950,206	\$793,941	\$86,794	\$95,411	\$9,923	\$30,171	\$1,966,446
2003	985,437	751,990	91,565	90,740	10,339	29,755	1,959,826
2004	1,021,201	707,712	100,800	85,762	10,793	29,301	1,955,569
2005	1,061,201	661,078	100,800	80,210	11,262	28,832	1,943,383
2006	1,116,431	610,996	105,569	74,454	11,736	28,358	1,947,544
2007-2011	5,288,431	2,223,875	551,574	277,725	66,667	133,803	8,542,075
2012-2016	4,947,603	880,511	582,388	89,492	82,226	118,244	6,700,464
2017-2021	640,000	44,632	0	0	101,416	99,054	885,102
2022-2036	0	0	0	0	407,997	131,485	539,482
Totals	\$16,010,510	\$6,674,735	\$1,619,490	\$793,794	\$712,359	\$629,003	\$18,342,359

City of Garfield Heights, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2001

Note 11- Compensated Absences

Employees earn vacation at different rates which are affected by length of service. In general, vacation earned in any one year must be used within the following year and cannot be carried over except with the written approval of the Mayor. At the time of separation the employee is entitled to payment for any earned but unused vacation within statutory limits. Fire Department employees may carry balances over from year to year but are limited to the payment of six weeks of accumulated but unused vacation by collective bargaining agreement.

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

Sick leave may be accrued 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 - Defined Benefit Pension Plans

A. Public Employees Retirement System

All full-time employees, other than non-administrative full-time police officers and firefighters, participate in the Public Employees Retirement System of Ohio (PERS), a cost-sharing multiple-employer public employee retirement system administered by the Public Employees Retirement Board. PERS provides basic retirement and disability benefits, annual cost of living adjustments, and death benefits to plan members and beneficiaries. Benefits are established by Chapter 145 of the Ohio Revised Code. PERS issues a stand-alone financial report which may be obtained by writing to the Public Employees Retirement System, 277 East Town Street, Columbus, Ohio 43215-4642.

Plan members are required to contribute 8.5 percent of their annual covered salary to fund pension obligations. The 2001 employer pension contribution rate for the City was 9.25 percent of covered payroll, increased from 6.54 percent in 2000. For 2000, PERS instituted a temporary employer rate rollback for state and local governments. Contributions are authorized by State statute. The contribution rates are determined actuarially. The City's required contributions to PERS for the years ended December 31, 2001, 2000, and 1999 were \$536,246, \$356,362, and \$480,218, respectively. The full amount has been contributed for 2000 and 1999. 77.51 percent has been contributed for 2001, with the remainder being presented as "intergovernmental payable" in the governmental activities column of the statement of net assets.

B. Ohio Police and Fire Pension Fund

The City contributes to the Ohio Police and Fire Pension Fund (OP&F), a cost-sharing multiple employer public employee retirement system administered by the OP&F's Board of Trustees. OP&F provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Benefit provisions are established by the Ohio State Legislature and by Chapter 742 of the Ohio Revised Code. OP&F issues a publicly available financial report that includes financial information and required supplementary information. That report may be obtained by writing to the Ohio Police and Fire Pension Fund, 140 East Town Street, Columbus, Ohio 43215-5164.

City of Garfield Heights, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2001

Police and firefighters are required to contribute 10 percent of their annual covered salary to fund pension obligations and the City is required to contribute 12 percent for police and 16.5 percent for firefighters. For 2000, the City contributions were 12.25 percent for police and 16.75 percent for firefighters. Contributions are authorized by State statute. The City's contributions to the OP&F for police and firefighters were \$431,550 and \$417,195 for the year ended December 31, 2001, \$400,774 and \$400,634 for the year ended December 31, 2000, and \$381,042 and \$383,936 for the year ended December 31, 1999. The full amount has been contributed for 2000 and 1999. 81.56 percent and 84.01 percent, respectively, have been contributed for 2001, with the remainder being presented as "intergovernmental payable" in the governmental activities column of the statement of net assets.

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, 2001, the unfunded liability of the City was \$712,359 payable in semi-annual payments through the year 2035. This is an accounting liability of the City which will not vary.

Note 13 – Postemployment Benefits

A. Public Employees Retirement System

The Public Employees Retirement System of Ohio (PERS) provides postretirement health care coverage to age and service retirees with ten or more years of qualifying Ohio service credit. Health care coverage for disability recipients and primary survivor recipients is available. The health care coverage provided by the retirement system is considered an Other Postemployment Benefit as described in GASB Statement No. 12. A portion of each employer's contribution to PERS is set aside for the funding of postretirement health care based on authority granted by State statute. The 2001 employer contribution rate was 13.55 percent of covered payroll; 4.30 percent was the portion that was used to fund health care for 2001. For 2000, the contribution rate was 10.84 percent of covered payroll; 4.30 percent was the portion that was used to fund health care.

Benefits are advance-funded using the entry age normal cost method. Significant actuarial assumptions, based on PERS's latest actuarial review performed as of December 31, 2000, include a rate of return on investments of 7.75 percent, an annual increase in active employee total payroll of 4.75 percent compounded annually (assuming no change in the number of active employees) and an additional increase in total payroll of between .54 percent and 5.1 percent based on additional annual pay increases. Health care premiums were assumed to increase 4.75 percent annually.

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

The number of active contributing participants was 411,076. The City's actual contributions for 2001 which were used to fund postemployment benefits were \$249,282. The actual contribution and the actuarially required contribution amounts are the same. PERS's net assets available for payment of benefits at December 31, 2000, (the latest information available) were \$11,735.9 million. The actuarially accrued liability and the unfunded actuarial accrued liability were \$14,364.6 million and \$2,628.7 million, respectively.

City of Garfield Heights, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2001

B. Police and Firemen's Disability and Pension Fund

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

The health care coverage provided by the retirement system is considered an Other Postemployment Benefit (OPEB) as described in GASB Statement No. 12. The Ohio Revised Code provides the authority allowing the Ohio Police and Fire Pension Fund's board of trustees to provide health care coverage and states that health care costs paid from the Ohio Police and Fire Pension Fund shall be included in the employer's contribution rate. Health care funding and accounting is on a pay-as-you-go basis. The total police employer contribution is 19.5 percent of covered payroll and the total firefighter employer contribution rate is 24 percent of covered payroll, of which 7.5 percent of covered payroll was applied to the postemployment health care program during 2001. For 2000 the percent used to fund healthcare was 7.25 percent. In addition, since July 1, 1992, most retirees have been required to contribute a portion of the cost of their health care coverage through a deduction from their monthly benefit payment.

The City's actual contributions for 2001 that were used to fund postemployment benefits were \$269,719 for police and \$189,634 for fire. The OP&F's total health care expense for the year ended December 31, 2000, (the latest information available) was \$106,160,054, which was net of member contributions of \$5,657,431. The number of OP&F participants eligible to receive health care benefits as of December 31, 2000, was 12,853 for police and 10,037 for firefighters.

Note 14 - 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 2001, the City contracted with a single company for various types of insurance as follows:

Company	Type	Coverage
Clarendon Insurance Company	Property	\$22,863,866
	Inland Marine	2,000,000
	Comprehensive General Liability	1,000,000 per occurrence 2,000,000 aggregate
	Police Professional Liability	1,000,000 per occurrence 1,000,000 aggregate
	Employment Practices	1,000,000 per occurrence 1,000,000 aggregate
	Vehicle Liability	1,000,000 combined
	Public Officials Liability	1,000,000 per occurrence 1,000,000 annual
	Umbrella Liability	1,000,000 per occurrence

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

The City manages employee health benefits on a self-insured basis. The employee health benefit plan provides basic hospital/medical/surgical plans with deductibles of \$100 per person and \$200 per family, with maximum out of pocket expenses, not including the deductibles, of \$500 per individual and the

City of Garfield Heights, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2001

family. Mutual of Ohio reviews all claims which are then paid by the City. An excess coverage insurance (stop-loss) policy covers claims in excess of \$75,000 per employee and an aggregate of \$1,318,697 per year. The benefit is paid by the fund that pays the salary for the employee and is based on historical cost information.

A health benefit claims liability of \$172,470 has been accrued in the general fund based on an estimate by the third party administrator. The liability reported at December 31, 2001 is based on the requirements of Governmental Accounting Standards Board Statement No. 30, which requires that a liability for unpaid claims costs, including estimates of costs relating to incurred but not reported claims, be reported. The estimate was not affected by incremental claim adjustment expenses and does not include other allocated or unallocated claim adjustment expense.

The City participates in the State Workers' Compensation retrospective rating and payment system. This plan involves the payment of a minimum premium for administrative services and stop-loss coverage plus the actual claim costs for employees injured in 2001. Claims of \$203,326 have been accrued as a liability at December 31, 2001 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 1999, 2000 and 2001 were:

	Balance at Beginning of Year	Current Year Claims	Claim Payments	Balance at End of Year
1999	\$336,821	\$406,130	\$169,838	\$573,113
2000	573,113	199,046	169,828	602,331
2001	602,331	78,104	304,639	375,796

Note 15 - Contingencies

A. Grants

The City receives financial assistance from federal and state agencies in the form of grants. The disbursements of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and is subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the general fund or other applicable funds. However, in the opinion of management, any such disallowed claims will not have a material effect on the overall financial position of the City at December 31, 2001.

B. Litigation

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

Note 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 92 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.

City of Garfield Heights, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2001

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 2001. Financial information can be obtained by contacting Dan DiLiberto, Treasurer, 35150 Lakeshore Boulevard, Eastlake, Ohio 44095.

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 2001, the City of Garfield Heights did not contribute 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 – Interfund Transfers and Balances

Transfer To	Transfer From				Total
	General	Motor Vehicle License Tax	Bond Retirement	Storm And Sanitary Sewer	
Police Pension	\$555,353	\$0	\$0	\$0	\$555,353
Fire Pension	474,678	0	0	0	474,678
Recreation	48,583	0	0	0	48,583
Street, Construction, Maintenance and Repair	320,000	0	0	0	320,000
Federal Nutrition	252,711	0	0	0	252,711
Law Enforcement Block Grant	5,732	0	0	0	5,732
Bond Retirement	0	190,000	0	120,000	310,000
Street Resurfacing	2	0	105,459	0	105,461
Service Center	0	0	315,000	0	315,000
Total	\$1,657,059	\$190,000	\$420,459	\$120,000	\$2,387,518

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

City of Garfield Heights, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2001

The City had no transfers that either do not occur on a regular basis or were inconsistent with the purpose of fund making the transfer.

On the fund financial statements the general fund reported an interfund receivable at December 31, 2001, of \$59,111. The community development special revenue fund had an interfund payable of the same amount. The interfund transfers were the result of deficit cash balances at year end.

On the fund financial statements the municipal court capital improvement and the various improvement capital projects funds reported an interfund receivable at December 31, 2001, of \$212,371 and \$482,493 respectively. The service center capital projects fund had an interfund payable of \$694,864. The interfund transfers were the result of deficit cash balances at year end.

Note 18 – Subsequent Event

On April 4, 2002, the City issued \$7,300,000 in general obligation bonds at 1.9% - 5% rate with a maturity date of December 1, 2012, for repayment of prior debt issues and various improvements including payment of the service center.

**CITY OF GARFIELD HEIGHTS
CUYAHOGA COUNTY
SCHEDULE OF FEDERAL AWARDS EXPENDITURES
FOR THE YEAR ENDED DECEMBER 31, 2001**

<u>Federal Grantor/Pass Through Grantor/Program Title</u>	<u>Pass Through Entity Number</u>	<u>Federal CFDA Number</u>	<u>(A) Disbursements</u>
<u>U.S. DEPARTMENT OF HOUSING & URBAN DEVELOPMENT</u>			
<i>Passed Through Cuyahoga County Department of Development:</i>			
Community Development Block Grants and Entitlement Grants:			
Broadway Avenue Streetscape	CE 10201A	14.218	\$22,644
Community Navigator Services	CE12006-01	14.218	10,570
Fire Station Renovation	CE11513-01	14.218	150,000
			<u>183,214</u>
<u>U.S. DEPARTMENT OF JUSTICE</u>			
<i>Direct Federal Assistance Programs:</i>			
Bullet Proof Vest Program	99002767	16.607	1,488
Local Law Enforcement Block Grants Program - FY00	2000LBVX0382	16.592	30,542
Local Law Enforcement Block Grants Program - FY01	1998LBVX4785	16.592	20,246
<i>Passed Through State of Ohio, Office of Criminal Justice Services:</i>			
Juvenile Accountability Incentive Block Grant - FY00	98-JB-011-A036	16.523	10,436
Juvenile Accountability Incentive Block Grant - FY01	99-JB-011-A036A	16.523	10,000
			<u>20,436</u>
Total U.S. Department of Justice			<u>72,712</u>
<u>U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES</u>			
<i>Passed Through Western Reserve Area Agency on Aging:</i>			
Aging Cluster:			
Title III, Part B - Grants for Supportive Services	N/A	93.044	2,793
Title III, Part C-1 - Nutrition Program (B)	N/A	93.045	36,293
Title III, Part C-2 - Nutrition Program (B)	N/A	93.045	2,487
			<u>38,780</u>
Total U.S. Department of Health and Human Services/Aging Cluster			<u>41,573</u>
<u>U.S. DEPARTMENT OF AGRICULTURE</u>			
<i>Passed Through Western Reserve Area Agency on Aging</i>			
Nutrition Program for the Elderly (C)	N/A	10.570	<u>16,774</u>
<u>U.S. DEPARTMENT OF TREASURY</u>			
<i>Passed Through Bureau of Alcohol, Tobacco and Firearms</i>			
GREAT Grant	50100000192	21.053	<u>39,104</u>
Total			<u><u>\$353,377</u></u>

The accompanying notes are an integral part of this Schedule.

**CITY OF GARFIELD HEIGHTS
CUYAHOGA COUNTY**

**NOTES TO THE SCHEDULE OF FEDERAL AWARDS EXPENDITURES
FOR THE YEAR ENDED DECEMBER 31, 2001**

NOTE A - SIGNIFICANT ACCOUNTING POLICES

The accompanying Schedule of Federal Awards Expenditures (Schedule) summarizes the activity of the City's federal award programs. The Schedule has been prepared on the cash basis of accounting. The information in this Schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of State and Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in this Schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

NOTE B - WESTERN RESERVE AREA AGENCY ON AGING

The City received from the Western Reserve Area Agency on Aging (WRAAA) a grant for catered meals valued at \$1.85 each or \$46,096 in total. These meals were purchased with a mix of USDA (CFDA #10.570) and Title III C-1 and Title III C-2 (CFDA #93.045) funds. The per meal cost of \$1.85 was determined by WRAAA. In addition, state and local funds of \$11,371 were spent for meals purchased.

NOTE C - WESTERN RESERVE AREA AGENCY ON AGING

During fiscal year 2001, the Western Reserve Area Agency on Aging (WRAAA) received cash reimbursement instead of food commodities from the USDA. Subsequently, the City's allocation during fiscal year 2001, for the Nutrition Program for the Elderly, was \$16,774 or \$.54 a meal.

CFDA - Catalog of Federal Domestic Assistance.

N/A - Not applicable.



**STATE OF OHIO
OFFICE OF THE AUDITOR**

JIM PETRO, AUDITOR OF STATE

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**REPORT ON COMPLIANCE AND ON INTERNAL CONTROL REQUIRED BY
GOVERNMENT AUDITING STANDARDS**

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

We have audited the financial statements of the City of Garfield Heights, Cuyahoga County, Ohio, (the City) as of and for the year ended December 31, 2001, and have issued our report thereon dated July 10, 2002. We conducted our audit in accordance 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.

Compliance

As part of obtaining reasonable assurance about whether the City's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, 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 an instance of noncompliance that is required to be reported under *Government Auditing Standards* which is described in the accompanying schedule of finding as item 2000-20818-001. We also noted certain immaterial instances of noncompliance that we have reported to management of the City in a separate letter dated July 10, 2002.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses. However, we noted other matters involving the internal control over financial reporting that do not require inclusion in this report, that we have reported to management of the City in a separate letter dated July 10, 2002.

This report is intended for the information and use of management, City Council, and federal awarding agencies and pass-through entities, and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in black ink, appearing to read "Jim Petro". The signature is stylized with a large, looping initial "J" and a cursive "Petro".

Jim Petro
Auditor of State

July 10, 2002



**STATE OF OHIO
OFFICE OF THE AUDITOR**

JIM PETRO, AUDITOR OF STATE

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**REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO ITS MAJOR
FEDERAL PROGRAM AND INTERNAL CONTROL OVER COMPLIANCE
IN ACCORDANCE WITH OMB CIRCULAR A-133**

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

Compliance

We have audited the compliance of the City of Garfield Heights, Cuyahoga County, Ohio, (the City) with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133, Compliance Supplement* that are applicable to its major federal program for the year ended December 31, 2001. The City's major federal program is identified in the summary of auditor's results section of the accompanying schedule of finding. Compliance with the requirements of laws, regulations, contracts and grants applicable to its major federal program is the responsibility of the City's management. Our responsibility is to express an opinion on the City's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance occurred with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program. An audit includes examining, on a test basis, evidence about the City's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the City's compliance with those requirements.

In our opinion, the City complied, in all material respects, with the requirements referred to above that are applicable to its major federal program for the year ended December 31, 2001.

Internal Control Over Compliance

The management of the City is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the City's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses. However, we noted other matters involving the internal control over federal compliance that do not require inclusion in this report, that we have reported to management of the City in a separate letter dated July 10, 2002.

This report is intended for the information and use of management, City Council, and federal awarding agencies and pass-through entities, and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in black ink, appearing to read "Jim Petro", written in a cursive style.

Jim Petro
Auditor of State

July 10, 2002

CITY OF GARFIELD HEIGHTS
 CUYAHOGA COUNTY
 DECEMBER 31, 2001

SCHEDULE OF FINDING
 OMB CIRCULAR A-133 Section .505

1. SUMMARY OF AUDITOR'S RESULTS
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(d)(1)(i)	<i>Type of Financial Statement Opinion</i>	Unqualified
(d)(1)(ii)	<i>Were there any material control weakness conditions reported at the financial statement level (GAGAS)?</i>	No
(d)(1)(ii)	<i>Were there any other reportable control weakness conditions reported at the financial statement level (GAGAS)?</i>	No
(d)(1)(iii)	<i>Was there any reported non-compliance at the financial statement level (GAGAS)?</i>	Yes
(d)(1)(iv)	<i>Were there any material internal control weakness conditions reported for major federal programs?</i>	No
(d)(1)(iv)	<i>Were there any other reportable internal control weakness conditions reported for major federal programs?</i>	No
(d)(1)(v)	<i>Type of Major Programs' Compliance Opinion</i>	Unqualified
(d)(1)(vi)	<i>Are there any reportable findings under Sec. .510?</i>	No
(d)(1)(vii)	<i>Major Programs (list)</i>	CDBG, CFDA #14.218
(d)(1)(viii)	<i>Dollar Threshold: Type A/B Programs</i>	Type A: > \$300,000 Type B: all others
(d)(1)(ix)	<i>Low Risk Auditee?</i>	No

**CITY OF GARFIELD HEIGHTS
CUYAHOGA COUNTY
DECEMBER 31, 2001**

**SCHEDULE OF FINDING
OMB CIRCULAR A-133 Section .505
(Continued)**

**2. FINDING RELATED TO THE FINANCIAL STATEMENTS
REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS**

FINDING NUMBER **2001-20818-001**

Ohio Rev. Code Sections 5705.41 (B) & (D), prescribes that no subdivision shall make any expenditure of money unless it has been appropriated. The following City accounts had expenditures plus encumbrances in excess of appropriations contrary to the aforementioned sections of the Revised Code:

Fund/Program/Activity	Appropriations	Expenditures Plus Encumbrances	Excess
General Fund			
<i>Security of Persons and Property</i>			
Police and Fire Communication			
Materials and Supplies	\$43,000	\$63,399	\$9,267
Fire Prevention			
Materials and Supplies	97,200	107,518	10,318
Special Revenue Funds			
Street, Construction, Maintenance and Repair			
<i>Transportation</i>			
Materials and Supplies	392,246	447,734	55,488
State Highway			
<i>Transportation</i>			
Materials and Supplies	5,988	11,545	5,557
Law Enforcement			
<i>Security of Persons and Property</i>			
Materials and Supplies	0	125	125
Service Center Note			
<i>Capital Outlay</i>			
Contractual Services	1,382,793	2,077,658	694,865

The percentage of excess of these budgetary violations ranges from 11 to 125%. This weakness could allow expenditures in the above funds to exceed the total of the available fund balance and the current year revenues. This would then result in a negative fund balance(s).

Additionally, throughout the year, other funds had occurrences where expenditures plus encumbrances exceeded appropriations.

In order to eliminate these budgetary violations, the City should compare appropriations to expenditures and appropriations to expenditures plus encumbrances, in all funds which are legally required to be budgeted, to ensure compliance with this requirement. This comparison should be performed on a monthly basis, at a minimum, and the City's appropriations should be amended as required if sufficient resources are available.

**CITY OF GARFIELD HEIGHTS
CUYAHOGA COUNTY
DECEMBER 31, 2001**

**SCHEDULE OF FINDING
OMB CIRCULAR A-133 Section .505
(Continued)**

3. FINDING FOR FEDERAL AWARDS

None.

**CITY OF GARFIELD HEIGHTS
CUYAHOGA COUNTY
DECEMBER 31, 2001**

**SCHEDULE OF PRIOR AUDIT FINDINGS
OMB CIRCULAR A-133 SECTION .315 (b)**

Finding Number	Finding Summary	Fully Corrected ?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; Explain:
2000-20818-001	Ohio Rev. Code Section 5705.41(B) & (D)	No	Not Corrected - Reissued

CITY OF GARFIELD HEIGHTS
CUYAHOGA COUNTY
DECEMBER 31, 2001

CORRECTIVE ACTION PLAN
OMB CIRCULAR A-133 SECTION .315 (c)

Finding Number	Planned Corrective Action	Anticipated Completion Date	Responsible Contact Person
2001-20818-001	City to compare appropriations to expenditures on a monthly basis	December 31, 2002	Richard W. Obert, Finance Director



STATE OF OHIO
OFFICE OF THE AUDITOR

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CITY OF GARFIELD HEIGHTS

CUYAHOGA COUNTY

CLERK'S CERTIFICATION

This is a true and correct copy of the report which is required to be filed in the Office of the Auditor of State pursuant to Section 117.26, Revised Code, and which is filed in Columbus, Ohio.

Susan Babbitt

CLERK OF THE BUREAU

CERTIFIED
AUGUST 20, 2002