



**CITY OF GARFIELD HEIGHTS
CUYAHOGA COUNTY**

REGULAR AUDIT

FOR THE YEARS ENDED DECEMBER 31, 2008 AND DECEMBER 31, 2007



Mary Taylor, CPA
Auditor of State

**CITY OF GARFIELD HEIGHTS
CUYAHOGA COUNTY**

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Mary Taylor, CPA

Auditor of State

INDEPENDENT ACCOUNTANTS' REPORT

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

To the Members of Council:

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the City of Garfield Heights, Cuyahoga County, Ohio (the City), as of and for the years ended December 31, 2008 and December 31, 2007, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

The Auditor of State served during the year ended December 31, 2008 as the City's financial supervisor in accordance with procedures established under Ohio Revised Code §118.05 (G). *Government Auditing Standards* considers this service to impair the independence of the Auditor of State to conduct the audit of the City because the Auditor of State may assume broad management powers, duties, and functions in accordance with Ohio Revised Code §118.04. However, *Government Auditing Standards* permits the Auditor of State to audit and opine on this entity, because Ohio Revised Code §118.05 (G) requires the Auditor of State to provide these supervisory services, and Ohio Revised Code §117.11(B) and 115.56 mandate the Auditor of State to audit Ohio governments.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the City of Garfield Heights, Cuyahoga County, Ohio, as of December 31, 2008 and December 31, 2007, and the respective changes in financial position thereof and the budgetary comparison for the General fund for the years then ended in conformity with accounting principles generally accepted in the United States of America.

The accompanying financial statements have been prepared assuming the City will continue as a going concern. As described in Note 1 to the financial statements for fiscal year 2008, the City is experiencing certain financial difficulties. The Auditor of State has determined a fiscal emergency exists, and a financial planning and supervision commission has assumed certain management responsibilities for the duration of this emergency pursuant to Chapter 118 of the Ohio Rev. Code. The City's financial difficulties have resulted in deficit fund balances in the General Fund of \$1,477,864, and other funds of \$1,358,635 that raise substantial doubt about the City's ability to continue as a going concern. Management's corrective action plan is described in Note 17 to the financial statements for fiscal year 2008. The financial statements do not include any adjustments that might result from the outcome of this uncertainty.

As described in Note 18 to the financial statements for fiscal year 2007, the City experienced financial difficulties at December 31, 2007. The difficulties have resulted in a deficit fund balance in the General Fund of \$3,203,763. Management's corrective action plan is described in Note 18 to the financial statements for fiscal year 2007.

As described in Note 3B to the financial statements, the City restated the January 1, 2007 General Fund, Bond Retirement Fund, and Remaining Fund Information fund balances due to an overstatement of cash and deferred revenue. In addition, the City restated January 1, 2007 Governmental Activities net assets due to an overstatement of cash and deferred revenue.

In accordance with *Government Auditing Standards*, we have also issued our report dated June 16, 2010, on our consideration of the City's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. While we did not opine on the internal control over financial reporting or on compliance, that report describes the scope of our testing of internal control over financial reporting and compliance and the results of that testing. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*. You should read it in conjunction with this report in assessing the results of our audit.

Management's Discussion and Analysis is not a required part of the basic financial statements but is supplementary information accounting principles generally accepted in the United States of America requires. We have applied certain limited procedures, consisting principally of inquiries of management regarding the methods of measuring and presenting the required supplementary information. However, we did not audit the information and express no opinion on it.



Mary Taylor, CPA
Auditor of State

June 16, 2010

City of Garfield Heights, Ohio
Management's Discussion and Analysis
For the Year Ended December 31, 2008
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, 2008. The intent of this discussion and analysis is to look at the City's financial performance as a whole. Readers should also review the basic financial statements and the notes to the basic financial statements to enhance their understanding of the City's financial performance.

Financial Highlights

As you proceed through this discussion and analysis you will notice that many revenues are down and major expenses are escalating, including expenses of the municipal court system which the City cannot control. In October 2008, the State Auditor's Office placed the City of Garfield Heights into Fiscal Emergency. Since this designation, the City has worked effortlessly to put in place a plan of action to eliminate this situation. In May 2009, the State Financial Oversight Commission approved the City's plan of action, and if all variables proceed as planned, the City of Garfield Heights will emerge from fiscal emergency with over a \$4.0 million balance at the end of 5 years.

Using this Annual Financial Report

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

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

Reporting the City of Garfield Heights as a Whole

Statement of Net Assets and the Statement of Activities

While this document contains information about the funds used by the City to provide services to our citizens, the view of the City as a whole looks at all financial transactions and asks the question, "How did we do financially during 2008?" 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.

City of Garfield Heights, Ohio
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In the Statement of Net Assets and the Statement of Activities, all of the City's activities are reported as Governmental Activities, which include all of the City's services including police, fire, administration and all other departments. The City of Garfield Heights does not operate any business-type activities and has no component units.

Reporting the City of Garfield Heights' Most Significant Funds

Fund Financial Statements

The analysis of the City's major funds begins on page 7. Fund financial reports provide detailed information about the City's major funds. Based on restrictions on the use of monies, the City has established many funds, which account for the multitude of services provided to the City's residents. However, these fund financial statements focus on the City's most significant funds. In the case of the City of Garfield Heights, the City's major funds are the general fund and the bond retirement (debt service) fund. All other funds of the City are grouped together in the category of Other Governmental Funds.

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

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

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 2008 compared to 2007.

| | (Table 1) | | |
|--------------------------|-------------------------|--------------|---------------|
| | Net Assets | | |
| | Governmental Activities | | |
| | 2008 | 2007 | Change |
| Assets | | | |
| Current and Other Assets | \$18,891,731 | \$21,567,827 | (\$2,676,096) |
| Capital Assets, Net | 36,722,462 | 37,853,360 | (1,130,898) |
| <i>Total Assets</i> | \$55,614,193 | \$59,421,187 | (\$3,806,994) |

City of Garfield Heights, Ohio
Management's Discussion and Analysis
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(Table 1)
Net Assets (continued)

| | Governmental Activities | | |
|--|-------------------------|---------------------|------------------|
| | 2008 | 2007 | Change |
| Liabilities | | | |
| Current and Other Liabilities | \$14,939,540 | \$17,757,382 | \$2,817,842 |
| Long-Term Liabilities: | | | |
| Due Within One Year | 2,442,271 | 2,551,218 | 108,947 |
| Due in More than One Year | 37,395,995 | 39,236,219 | 1,840,224 |
| <i>Total Liabilities</i> | <u>54,777,806</u> | <u>59,544,819</u> | <u>4,767,013</u> |
| Net Assets | | | |
| Invested in Capital Assets Net of Debt | 12,785,805 | 12,406,983 | 378,822 |
| Restricted: | | | |
| Capital Projects | 1,199,985 | 2,795,313 | (1,595,328) |
| Debt Service | 1,305,602 | 1,322,421 | (16,819) |
| Street Lighting | 221,840 | 171,497 | 50,343 |
| Courts | 94,930 | 92,912 | 2,018 |
| Other Purposes | 576,535 | 668,884 | (92,349) |
| Unrestricted (Deficit) | <u>(15,348,310)</u> | <u>(17,581,642)</u> | <u>2,233,332</u> |
| <i>Total Net Assets</i> | <u>\$836,387</u> | <u>(\$123,632)</u> | <u>\$960,019</u> |

Current and other assets decreased by \$2,676,096 and capital assets (net of depreciation) decreased by \$1,130,898 thus creating a decrease in total assets of \$3,806,994. This decrease is a due to a decrease in property taxes receivable and available cash which can be attributed to the overall poor economy.

Current and other liabilities decreased by \$2,817,842 due to reductions in deferred revenue and contracts payable. Long term liabilities decreased by \$1,949,171 due to another year of debt payments being made, thus creating a total decrease in liabilities of \$4,767,013. The City's investment in capital assets (net of related debt) increased by \$378,822 from 2007.

The City's governmental activities net assets increased by \$960,019, while unrestricted net assets increased by \$2,233,332. Unrestricted assets are not enough to pay liabilities. This has been identified by the presentation of the financial statements. Management is discussing the long-term effect for the City. The City's financial recovery plan includes fee increases in the recreation department, building department, finance department and the fire department which are expected to generate additional revenue for 2009 and beyond. The City is also in the process of installing red light cameras and speed-on-green citation systems that should be in operation in the fall of 2009. These systems are expected to generate additional revenues in 2009 and beyond.

The City of Garfield Heights has been attempting to stabilize certain long-term liabilities such as compensated absences. In 2002, the City successfully negotiated various forms of accumulated vacation and sick leave buy backs. To this extent, the employees' may elect to "cash-in" a certain number of hours of these accrued leave balances in lieu of banking them for future use. This program is a win-win situation for the employees and the City. The employee wins by having the option of taking these dollars and investing in

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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, 2008, as compared to the changes in net assets for 2007.

Table 2
Changes in Net Assets

| | Governmental Activities | | |
|--|-------------------------|--------------------|------------------|
| | 2008 | 2007 | Change |
| Revenues | | | |
| <i>Program Revenues</i> | | | |
| Charges for Services | \$4,330,232 | \$3,796,603 | \$533,629 |
| Operating Grants | 1,501,782 | 1,443,012 | 58,770 |
| Capital Grants and Assessments | 106,087 | 302 | 105,785 |
| <i>Total Program Revenues</i> | 5,938,101 | 5,239,917 | 698,184 |
| <i>General Revenues</i> | | | |
| Property Taxes | 9,878,792 | 9,387,710 | 491,082 |
| Municipal Income Taxes | 11,433,844 | 10,014,943 | 1,418,901 |
| Grants and Entitlements not Restricted to Specific Programs | 4,457,669 | 3,759,291 | 698,378 |
| Interest | 25,680 | 28,056 | (2,376) |
| Franchise Fees | 248,830 | 245,453 | 3,377 |
| Payments in Lieu of Taxes | 147,784 | 372,770 | (224,986) |
| Gain on Sale of Capital Assets | 40,290 | 18,575 | 21,715 |
| Other | 538,490 | 890,348 | (351,858) |
| <i>Total General Revenues</i> | 26,771,379 | 24,717,146 | 2,054,233 |
| <i>Total Revenues</i> | 32,709,480 | 29,957,063 | 2,752,417 |
| Program Expenses | | | |
| General Government | 8,686,388 | 9,628,182 | 941,794 |
| Security of Persons and Property | 12,550,892 | 13,198,000 | 647,108 |
| Public Health Services | 825,124 | 694,889 | (130,235) |
| Transportation | 3,882,715 | 4,801,498 | 918,783 |
| Community Development | 154,628 | 212,148 | 57,520 |
| Basic Utility Services | 2,661,598 | 2,329,338 | (332,260) |
| Leisure Time Activities | 1,380,602 | 1,923,507 | 542,905 |
| Interest and Fiscal Charges | 1,607,514 | 1,656,757 | 49,243 |
| <i>Total Program Expenses</i> | 31,749,461 | 34,444,319 | 2,694,858 |
| <i>Increase (Decrease) in Net Assets</i> | 960,019 | (4,487,256) | 5,447,275 |
| Net Assets Beginning of Year | (123,632) | 4,363,624 | (4,487,256) |
| <i>Net Assets End of Year</i> | \$836,387 | (\$123,632) | \$960,019 |

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Program revenues increased by \$698,184, most of which is attributed to increased charges for services, while general revenues increased by \$2,054,233, the majority of which was for income taxes, thus resulting in an overall increase in total revenues of \$2,752,417. Total program expenses over this period decreased by \$2,694,858. The reason for this decrease is due to the City implementing cost cutting measures where feasible without sacrificing essential services. The net effect of these revenue increases and expense decreases was an increase in net assets of \$960,019.

Governmental Activities

Several revenue sources fund our governmental activities. Under the accrual basis of accounting, the City income taxes accounted for \$11,433,844 or 34.96 percent of total revenues; property taxes accounted for \$9,878,792 or 30.20 percent of gross revenues; grants and entitlements accounted for \$4,457,669 or 13.63 percent of total revenues; and charges for services accounted for \$4,330,232 or 13.24 percent of total revenues. The income tax rate of 2.0 percent, with a 100 percent credit for payments made to other Cities, was approved by a vote of our citizens in 1982, which took effect in January of 1983.

Major expense activities, under the accrual basis of accounting, included: security of persons and property expenses which accounted for 39.53 percent of total program expenses; general government expenses which accounted for 27.36 percent; transportation which accounted for 12.23 percent; and basic utility services which accounted for 8.38 percent. Overall, there was a decrease in program expenses of \$2,694,858 from 2007 program expense totals. The City is committed to providing the basic services that our residents expect.

The City's Funds

Information about the City's major governmental funds begins on page 14. These funds are accounted for using the modified accrual basis of accounting. Review of these statements reveals that all government funds had total revenues of \$32,357,255 and total expenditures of \$38,075,731. The net effect for all government funds was a deficit fund balance of \$2,711,386. This deficit fund balance represents a slight increase in the deficit fund balance that the City had at the end of 2007.

Garfield Heights has not been immune to the resulting economic conditions of our country brought on by the terrorist acts of 9-11, the effects of the recent war in the mid-east, the economic slow down, and the more recent housing crisis that has had a grip on this area of the country. A deeper analysis of these statements will show that the fund balance of the City's general fund, the City's main operational fund, has a deficit fund balance of \$1,477,864 at year end. There were many major factors that resulted in this negative fund balance. Some of these were regulatory changes such as: 1) a change in the personal property tax laws that resulted in lower collections; 2) a loss of inheritance tax revenue due to a change in State Law as to the size of an estate on which the tax applies; while other factors include an increase in the security of persons and property, leisure time activity and basic utility services programs.

General Fund Budgeting Highlights

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

During the course of 2008, the City did not amend its general fund budget. All recommendations for any budget change come from the City Finance Director to the Finance Committee of Council for review before going to the whole Council for ordinance enactment on the change. The City does not allow budget changes

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that modify line items within departments without Council approval. With the general fund supporting many of the major activities such as the police and fire departments, as well as most legislative and executive activities, the general fund is monitored closely for possible revenue shortfalls or over spending by individual departments.

For the general fund, original and final budgeted revenues were \$23,690,226, and actual revenue collections were \$22,892,198. The major factors contributing to the decrease of actual revenues over the budgeted amounts were decreases in the other revenue category of \$1,012,966, intergovernmental revenues of \$574,522, and fines and forfeitures of \$58,213. These decreases can all be attributed to the overall poor economy. The City of Garfield Heights' ending balance in the general fund was \$1,084,989 below the final budgeted amount, thus resulting in a deficit fund balance of \$1,942,506. Should the general economic conditions of the area continue their downward spiral, the City administration and elected officials will have to make some decisive decisions in regards to either some stricter controls placed on expenditures, increases in locally generated revenues, or some mix of the two, in order to avoid further economic distress to the City of Garfield Heights.

Capital Assets and General Long-Term Obligations

Capital Assets

Table 3
 Capital Assets at December 31, 2008
 (Net of Depreciation)

| | Governmental Activities | | |
|----------------------------|-------------------------|--------------|---------------|
| | 2008 | 2007 | Change |
| Land | \$1,538,942 | \$1,540,427 | (\$1,485) |
| Construction in Progress | 626,932 | 518,118 | 108,814 |
| Buildings and Improvements | 12,933,957 | 13,409,743 | (475,786) |
| Vehicles | 2,922,608 | 2,393,169 | 529,439 |
| Machinery and Equipment | 1,363,105 | 1,514,831 | (151,726) |
| Furniture and Fixtures | 169,991 | 195,835 | (25,844) |
| Infrastructure | 17,166,927 | 18,281,237 | (1,114,310) |
| Total | \$36,722,462 | \$37,853,360 | (\$1,130,898) |

Increases in capital assets not being depreciated, such as construction in progress, of \$108,814, and of depreciated capital assets of \$1,062,621, were offset by the effects of depreciation during 2008. Increases in accumulated depreciation thus resulted in a net decrease in total capital assets of \$1,130,898, or a decrease from 2007 of 2.99 percent. See note 9 for additional information on the City's capital assets.

Long Term Obligations

The City's overall legal debt margin at December 31, 2008 was \$20,872,090. Table 4 indicates the total outstanding long-term obligations of the City.

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

| | Governmental Activities | | |
|--------------------------|-------------------------|--------------|---------------|
| | 2008 | 2007 | Change |
| General Obligation Bonds | \$26,939,207 | \$28,823,431 | (\$1,884,224) |
| Special Assessment Bonds | 975,247 | 1,088,451 | (113,204) |
| Notes | 5,508,000 | 5,410,000 | 98,000 |
| Police and Fire Loan | 633,278 | 646,049 | (12,771) |
| Total | \$34,055,732 | \$35,967,931 | (\$1,912,199) |

During 2008, three new notes were issued, the Equipment Acquisition Note 2008, the Street Improvement Note 2008, and the Various Purpose Note 2008, thus resulting in the increase in the Notes identified above. One of the City's major funds is the bond retirement fund, which is specifically set up for the accumulation and payment of the City's annual principal and interest requirements of the general obligation and special assessment bonds identified above.

The police and fire loan shown in Table 4 above, in the amount of \$633,278 identifies the City's accrued liability incurred when the State of Ohio established the statewide pension system for police and firefighters in 1967. Actual cash demands, for principal and interest for this obligation, total over \$40,000 annually through the year 2035. See Note 12 for detailed long-term debt information.

Current Financial Related Activities

As is the case with many governmental agencies, dated infrastructure can be a problem, however, over the past 20 years, the City has taken a proactive stance in regards to dated infrastructure and plans to continue this effort of improving infrastructure as the need arises. Annually the City's engineer inspects roadways and suggests the worst for repair. During 2006, the City completed the reconstruction of two major roads in the I-480/Transportation Business District, with an approximate value of \$2,000,000. Additionally, over the past ten years, the City has converted two of the last three septic sanitary tank areas to sanitary sewer service. The third of these septic areas has been amassed into a plot that is proposed for the future development project known as the Bridgeview Crossing Project. This development has been accomplished through the use of Federal and State grant funding; the issuance of special assessment bond issues, payable over 20 years by the affected property owners; and the issuance of general obligation debt.

In 2007 the City has added \$517,367 in vehicles to our fleet. 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

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increased development within the City and have shown their acceptance through numerous rezoning issues placed before them throughout the 1990's. The two zoning districts added in the early 1990's to accomplish the City's economic development plans were U11-A: Office Parks and U11-B: Industrial Parks.

New development and expansion, under the zoning districts identified above, is continuing in the Broadway Ave./McCracken Road Development District. Another factor that the City expects to increase development in this district over the next five to ten years is the decision by the Norfolk/Southern Railroad to locate a new Intermodal Facility off Broadway Avenue in our sister City of Maple Heights. This facility is located about a mile and a half from the City of Garfield Heights' border. Access to the Interstate Highway system from this location is via the Broadway Avenue entrance, which is in the City. This facility was constructed through the summer of 2001 and was operational in late fall 2001. The City's projection of increased development in this area, due to the Intermodal Facility, has already started. Two companies have already constructed and occupied office/warehouse buildings in this area. Another contractor/investor has amassed a 20-acre block of land in this area for future development. In addition to this private investment in this area, the City has recently been granted both a State Issue II and a Community Development Block Grant for the reconstruction of the East 131 Street/Broadway Intersection and the addition of another traffic lane in Broadway Avenue from East 131 Street to the I-480 entrance ramp. This improvement will help to spur the development in the Broadway Corridor section of the development district by improving the traffic patterns and access to the Interstate Highway System. The applications for this funding were initiated due to a County Planning Commission analysis of the industrial impact of the facility and an engineering analysis of the traffic patterns that would result from the expected development in this area.

City View Center is now the home to many new retail establishments such as OfficeMax, Dick's Sporting Goods, Giant Eagle, Starbucks, Bed Bath & Beyond, and many more. It has been estimated that this development has helped to retain and/or create between 500 and 1,000 jobs in the City. In addition to the development on this side of I-480, another development group has amassed a block of land, through the buyout of residential housing in the last septic area of the City, on the opposite side of I-480, and has begun the clearing and grading of the land for their project. This group is proposing another retail, office and restaurant development called the "Bridgeview Crossing" project. This project is estimated at \$45 million and should create around 800 new jobs. Although both of these development areas have been subjected to financial difficulties due to the current economic conditions effecting our country, the City still holds the belief that this development will have a significant impact upon the future financial position of the City of Garfield Heights.

The City has experienced a financial shortfall which has resulted in deficit spending in the general fund and other less significant funds at December 31, 2008. To alleviate the financial shortfall, the City has developed a strategy to stabilize its cash shortfall in the aforementioned funds. See Note 17 for further information.

Contacting the City's Finance Department

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

Basic Financial Statements

City of Garfield Heights, Ohio

Statement of Net Assets

December 31, 2008

| | <u>Governmental Activities</u> |
|---|------------------------------------|
| Assets | |
| Cash and Cash Equivalents With Fiscal Agents | \$183 |
| Accounts Receivable | 1,260,108 |
| Intergovernmental Receivable | 2,568,691 |
| Prepaid Items | 25,470 |
| Materials and Supplies Inventory | 65,508 |
| Municipal Income Taxes Receivable | 2,662,763 |
| Property Taxes Receivable | 10,921,997 |
| Special Assessments Receivable | 975,247 |
| Payments in Lieu of Taxes Receivable | 101,291 |
| Deferred Charges | 310,473 |
| Nondepreciable Capital Assets | 2,165,874 |
| Depreciable Capital Assets, Net | <u>34,556,588</u> |
| <i>Total Assets</i> | <u>55,614,193</u> |
| Liabilities | |
| Accounts Payable | 355,491 |
| Contracts Payable | 535,209 |
| Accrued Wages | 537,888 |
| Retainage Payable | 35,491 |
| Intergovernmental Payable | 1,601,686 |
| Due to Agency Funds | 397,742 |
| Deferred Revenue | 11,013,866 |
| Accrued Interest Payable | 158,597 |
| Claims Payable | 303,570 |
| Long-Term Liabilities: | |
| Due Within One Year | 2,442,271 |
| Due In More Than One Year | <u>37,395,995</u> |
| <i>Total Liabilities</i> | <u>54,777,806</u> |
| Net Assets | |
| Invested in Capital Assets, Net of Related Debt | 12,785,805 |
| Restricted for: | |
| Capital Projects | 1,199,985 |
| Debt Service | 1,305,602 |
| Street Lighting | 221,840 |
| Courts | 94,930 |
| Other Purposes | 576,535 |
| Unrestricted (Deficit) | <u>(15,348,310)</u> |
| <i>Total Net Assets</i> | <u><u>\$836,387</u></u> |

See accompanying notes to the basic financial statements

City of Garfield Heights, Ohio
Statement of Activities
For the Year Ended December 31, 2008

| | Program Revenues | | | | Net (Expense) Revenue and Changes in Net Assets |
|----------------------------------|---------------------|-------------------------|---------------------|--------------------------------------|--|
| | Expenses | Charges for Services | Operating Grants | Capital Grants and Assessments | Governmental Activities |
| Governmental Activities: | | | | | |
| General Government | \$8,686,388 | \$1,722,247 | \$0 | \$105,751 | (\$6,858,390) |
| Security of Persons and Property | 12,550,892 | 1,719,946 | 10,115 | 0 | (10,820,831) |
| Public Health Services | 825,124 | 90,967 | 56,904 | 0 | (677,253) |
| Transportation | 3,882,715 | 188,425 | 1,301,525 | 0 | (2,392,765) |
| Community Development | 154,628 | 25,441 | 35,778 | 0 | (93,409) |
| Basic Utility Services | 2,661,598 | 270,312 | 86,295 | 336 | (2,304,655) |
| Leisure Time Activities | 1,380,602 | 312,894 | 11,165 | 0 | (1,056,543) |
| Interest and Fiscal Charges | 1,607,514 | 0 | 0 | 0 | (1,607,514) |
| Totals | \$31,749,461 | \$4,330,232 | \$1,501,782 | \$106,087 | (25,811,360) |

General Revenues

Property Taxes Levied for:

| | |
|------------------|-----------|
| General Purposes | 6,996,780 |
| Street Lighting | 513,499 |
| Police Pension | 133,956 |
| Fire Pension | 133,956 |
| Recreation | 66,979 |
| Debt Service | 1,587,100 |
| Capital Outlay | 446,522 |

Municipal Income Tax Levied for:

| | |
|---|-----------|
| General Purposes | 8,575,384 |
| Recreation | 686,030 |
| Street Construction, Maintenance and Repair | 686,030 |
| Debt Service | 800,369 |
| Capital Outlay | 686,031 |

Grants and Entitlements not

| | |
|---------------------------------|-----------|
| Restricted to Specific Programs | 4,457,669 |
| Interest | 25,680 |
| Franchise Fees | 248,830 |
| Payments in Lieu of Taxes | 147,784 |
| Gain on Sale of Capital Assets | 40,290 |
| Other | 538,490 |

Total General Revenues 26,771,379

Change in Net Assets 960,019

Net Assets (Deficit) Beginning of Year (123,632)

Net Assets End of Year \$836,387

See accompanying notes to the basic financial statements

City of Garfield Heights, Ohio

Balance Sheet

Governmental Funds

December 31, 2008

| | General | Bond Retirement | Other Governmental Funds | Total Governmental Funds |
|--|---------------------|--------------------|--------------------------------|--------------------------------|
| Assets | | | | |
| Cash and Cash Equivalents | | | | |
| With Fiscal Agents | \$0 | \$0 | \$183 | \$183 |
| Accounts Receivable | 1,207,687 | 0 | 52,421 | 1,260,108 |
| Intergovernmental Receivable | 1,602,765 | 119,351 | 846,575 | 2,568,691 |
| Prepaid Items | 22,262 | 0 | 3,208 | 25,470 |
| Materials and Supplies Inventory | 27,385 | 0 | 38,123 | 65,508 |
| Interfund Receivable | 0 | 65,188 | 1,934,232 | 1,999,420 |
| Payments in Lieu of Taxes Receivable | 0 | 0 | 101,291 | 101,291 |
| Municipal Income Taxes Receivable | 1,997,072 | 186,393 | 479,298 | 2,662,763 |
| Property Taxes Receivable | 7,856,339 | 1,706,270 | 1,359,388 | 10,921,997 |
| Special Assessments Receivable | 0 | 975,247 | 0 | 975,247 |
| <i>Total Assets</i> | <u>\$12,713,510</u> | <u>\$3,052,449</u> | <u>\$4,814,719</u> | <u>\$20,580,678</u> |
| Liabilities | | | | |
| Accounts Payable | \$202,271 | \$0 | \$153,220 | \$355,491 |
| Contracts Payable | 351,998 | 0 | 183,211 | 535,209 |
| Accrued Wages | 462,913 | 0 | 74,975 | 537,888 |
| Retainage Payable | 0 | 0 | 35,491 | 35,491 |
| Intergovernmental Payable | 595,837 | 0 | 1,005,849 | 1,601,686 |
| Due to Agency Funds | 397,742 | 0 | 0 | 397,742 |
| Interfund Payable | 638,351 | 0 | 1,361,069 | 1,999,420 |
| Deferred Revenue | 11,289,660 | 2,927,336 | 3,308,571 | 17,525,567 |
| Claims Payable | 252,602 | 0 | 50,968 | 303,570 |
| <i>Total Liabilities</i> | <u>14,191,374</u> | <u>2,927,336</u> | <u>6,173,354</u> | <u>23,292,064</u> |
| Fund Balances | | | | |
| Reserved for Encumbrances | 72,964 | 0 | 73,276 | 146,240 |
| Unreserved, Undesignated, Reported in: | | | | |
| General Fund (Deficit) | (1,550,828) | 0 | 0 | (1,550,828) |
| Special Revenue Funds (Deficit) | 0 | 0 | (1,986,753) | (1,986,753) |
| Debt Service Funds | 0 | 125,113 | 0 | 125,113 |
| Capital Projects Funds | 0 | 0 | 554,842 | 554,842 |
| <i>Total Fund Balances (Deficit)</i> | <u>(1,477,864)</u> | <u>125,113</u> | <u>(1,358,635)</u> | <u>(2,711,386)</u> |
| <i>Total Liabilities and Fund Balances</i> | <u>\$12,713,510</u> | <u>\$3,052,449</u> | <u>\$4,814,719</u> | <u>\$20,580,678</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, 2008*

| | |
|--|-----------------------------|
| Total Governmental Fund Balances | (\$2,711,386) |
| <i>Amounts reported for governmental activities in the statement of net assets are different because</i> | |
| Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds. | 36,722,462 |
| Other long-term assets are not available to pay for current-period expenditures and therefore are deferred in the funds: | |
| Property Taxes | 1,494,369 |
| Municipal Income Taxes | 1,806,692 |
| Intergovernmental | 2,222,778 |
| Charges for Services | 2,562 |
| Payments in Lieu of Taxes | 10,053 |
| Special Assessments | <u>975,247</u> |
| Total | 6,511,701 |
| In the statement of activities, interest is accrued on outstanding bonds, whereas in governmental funds, an interest expenditure is reported when due. | (158,597) |
| Bond issuance costs are considered deferred charges and will be amortized over the life of the bonds on the statement of net assets. | 310,473 |
| Long-term liabilities, including bonds payable are not due and payable in the current period and therefore are not reported in the funds: | |
| General Obligation Bonds | (26,939,207) |
| Special Assessment Bonds | (975,247) |
| Compensated Absences | (5,398,438) |
| Claims Payable | (384,096) |
| Police and Fire Liability | (633,278) |
| Notes Payable | <u>(5,508,000)</u> |
| Total | <u>(39,838,266)</u> |
| <i>Net Assets of Governmental Activities</i> | <u><u>\$836,387</u></u> |

See accompanying notes to the basic financial statements

City of Garfield Heights, Ohio
Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds
For the Year Ended December 31, 2008

| | General | Bond Retirement | Other Governmental Funds | Total Governmental Funds |
|---|----------------------|--------------------|--------------------------------|--------------------------------|
| Revenues | | | | |
| Property Taxes | \$6,917,305 | \$1,581,580 | \$1,295,644 | \$9,794,529 |
| Municipal Income Taxes | 8,377,668 | 781,916 | 2,010,640 | 11,170,224 |
| Special Assessments | 0 | 218,955 | 0 | 218,955 |
| Charges for Services | 2,629,876 | 0 | 255,179 | 2,885,055 |
| Fees, Licenses and Permits | 263,999 | 0 | 286,482 | 550,481 |
| Fines and Forfeitures | 422,085 | 0 | 469,201 | 891,286 |
| Intergovernmental | 3,933,662 | 238,702 | 1,692,954 | 5,865,318 |
| Interest | 18,668 | 0 | 7,012 | 25,680 |
| Rentals | 28,122 | 0 | 0 | 28,122 |
| Franchise Fees | 248,830 | 0 | 0 | 248,830 |
| Payments in Lieu of Taxes | 0 | 0 | 140,285 | 140,285 |
| Other | 277,386 | 0 | 261,104 | 538,490 |
| <i>Total Revenues</i> | <u>23,117,601</u> | <u>2,821,153</u> | <u>6,418,501</u> | <u>32,357,255</u> |
| Expenditures | | | | |
| Current: | | | | |
| General Government | 7,979,533 | 37,443 | 306,271 | 8,323,247 |
| Security of Persons and Property | 10,065,545 | 0 | 1,654,135 | 11,719,680 |
| Public Health Services | 302,931 | 0 | 462,485 | 765,416 |
| Transportation | 4,520 | 0 | 1,955,452 | 1,959,972 |
| Community Development | 164,295 | 0 | 0 | 164,295 |
| Basic Utility Services | 1,641,604 | 0 | 549,451 | 2,191,055 |
| Leisure Time Activities | 0 | 0 | 1,057,799 | 1,057,799 |
| Capital Outlay | 0 | 0 | 2,869,892 | 2,869,892 |
| Debt Service: | | | | |
| Principal Retirement | 0 | 1,993,000 | 5,422,771 | 7,415,771 |
| Interest and Fiscal Charges | 0 | 1,363,725 | 244,879 | 1,608,604 |
| <i>Total Expenditures</i> | <u>20,158,428</u> | <u>3,394,168</u> | <u>14,523,135</u> | <u>38,075,731</u> |
| <i>Excess of Revenues Over (Under) Expenditures</i> | <u>2,959,173</u> | <u>(573,015)</u> | <u>(8,104,634)</u> | <u>(5,718,476)</u> |
| Other Financing Sources (Uses) | | | | |
| General Obligation Notes Issued | 0 | 0 | 5,508,000 | 5,508,000 |
| Sale of Capital Assets | 43,625 | 0 | 0 | 43,625 |
| Transfers In | 0 | 1,008,000 | 1,692,590 | 2,700,590 |
| Transfers Out | (1,276,899) | (415,691) | (1,008,000) | (2,700,590) |
| <i>Total Other Financing Sources (Uses)</i> | <u>(1,233,274)</u> | <u>592,309</u> | <u>6,192,590</u> | <u>5,551,625</u> |
| <i>Net Change in Fund Balances</i> | 1,725,899 | 19,294 | (1,912,044) | (166,851) |
| <i>Fund Balances (Deficit)</i> | | | | |
| <i>Beginning of Year</i> | <u>(3,203,763)</u> | <u>105,819</u> | <u>553,409</u> | <u>(2,544,535)</u> |
| <i>Fund Balances (Deficit) End of Year</i> | <u>(\$1,477,864)</u> | <u>\$125,113</u> | <u>(\$1,358,635)</u> | <u>(\$2,711,386)</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, 2008*

Net Change in Fund Balances - Total Governmental Funds (S166,851)

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

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

| | | |
|----------------|-------------|-------------|
| Capital Outlay | 1,171,435 | |
| Depreciation | (2,297,369) | |
| | | |
| Total | | (1,125,934) |

Governmental funds only report the disposal of capital assets to the extent proceeds are received from the sale. In the statement of activities, a gain or loss is reported for each disposal. (4,964)

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

| | | |
|---------------------------|-----------|---------|
| Property Taxes | 84,263 | |
| Municipal Income Taxes | 263,620 | |
| Intergovernmental | 94,469 | |
| Charges for Services | (24,712) | |
| Payments in Lieu of Taxes | 7,499 | |
| Special Assessments | (113,204) | |
| | | |
| Total | | 311,935 |

Repayment of long-term obligations is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets. 7,415,771

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

| | | |
|-------------------------------------|----------|-------|
| Accrued Interest on Bonds | 17,712 | |
| Amortization of Bond Issuance Costs | (21,050) | |
| Amortization of Loss on Refunding | (4,140) | |
| Amortization of Bond Premium | 8,568 | |
| | | |
| Total | | 1,090 |

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

| | | |
|----------------------|-----------|--------|
| Compensated Absences | (205,713) | |
| Claims | 242,685 | |
| | | |
| Total | | 36,972 |

Proceeds of notes in the governmental funds increase long-term liabilities in the statement of net assets. (5,508,000)

Change in Net Assets of Governmental Activities \$960,019

See accompanying notes to the basic financial statements

City of Garfield Heights, Ohio
Statement of Revenues, Expenditures and Changes
In Fund Balance - Budget (Non-GAAP Basis) and Actual
General Fund
For the Year Ended December 31, 2008

| | <u>Budgeted Amounts</u> | | | Variance with |
|---|-------------------------|--------------------|----------------------|--|
| | <u>Original</u> | <u>Final</u> | <u>Actual</u> | Final Budget Positive (Negative) |
| Revenues | | | | |
| Property Taxes | \$6,896,687 | \$6,896,687 | \$6,917,305 | \$20,618 |
| Municipal Income Taxes | 7,730,063 | 7,730,063 | 8,232,756 | 502,693 |
| Charges for Services | 2,257,005 | 2,257,005 | 2,557,989 | 300,984 |
| Fees, Licenses and Permits | 245,383 | 245,383 | 262,641 | 17,258 |
| Fines and Forfeitures | 500,000 | 500,000 | 441,787 | (58,213) |
| Intergovernmental | 4,505,341 | 4,505,341 | 3,930,819 | (574,522) |
| Interest | 28,000 | 28,000 | 18,668 | (9,332) |
| Rentals | 26,000 | 26,000 | 28,122 | 2,122 |
| Franchise Fees | 245,500 | 245,500 | 248,830 | 3,330 |
| Other | 1,256,247 | 1,256,247 | 243,281 | (1,012,966) |
| <i>Total Revenues</i> | <u>23,690,226</u> | <u>23,690,226</u> | <u>22,882,198</u> | <u>(808,028)</u> |
| Expenditures | | | | |
| Current: | | | | |
| General Government | 8,837,695 | 8,837,695 | 9,247,067 | (409,372) |
| Security of Persons and Property | 10,336,192 | 10,336,192 | 10,613,247 | (277,055) |
| Public Health Services | 185,678 | 185,678 | 178,936 | 6,742 |
| Community Development | 165,956 | 165,956 | 173,109 | (7,153) |
| Basic Utility Services | 1,473,320 | 1,473,320 | 1,883,900 | (410,580) |
| <i>Total Expenditures</i> | <u>20,998,841</u> | <u>20,998,841</u> | <u>22,096,259</u> | <u>(1,097,418)</u> |
| <i>Excess of Revenues Over Expenditures</i> | <u>2,691,385</u> | <u>2,691,385</u> | <u>785,939</u> | <u>(1,905,446)</u> |
| Other Financing Sources (Uses) | | | | |
| Sale of Capital Assets | 0 | 0 | 43,625 | 43,625 |
| Transfers Out | (2,053,731) | (2,053,731) | (1,276,899) | 776,832 |
| <i>Total Other Financing Sources (Uses)</i> | <u>(2,053,731)</u> | <u>(2,053,731)</u> | <u>(1,233,274)</u> | <u>820,457</u> |
| <i>Net Change in Fund Balance</i> | 637,654 | 637,654 | (447,335) | (1,084,989) |
| <i>Fund Deficit Beginning of Year</i> | (1,811,661) | (1,811,661) | (1,811,661) | 0 |
| Prior Year Encumbrances Appropriated | 316,490 | 316,490 | 316,490 | 0 |
| <i>Fund Deficit End of Year</i> | <u>(\$857,517)</u> | <u>(\$857,517)</u> | <u>(\$1,942,506)</u> | <u>(\$1,084,989)</u> |

See accompanying notes to the basic financial statements

City of Garfield Heights, Ohio
Statement of Fiduciary Assets and Liabilities
Agency Funds
December 31, 2008

| | <u>Agency</u> |
|--|---------------------------|
| Assets | |
| Cash and Cash Equivalents in Segregated Accounts | \$1,385,614 |
| Due from Governmental Funds | 397,742 |
| Payments in Lieu of Taxes Receivable | <u>2,000,502</u> |
| <i>Total Assets</i> | <u><u>\$3,783,858</u></u> |
| | |
| Liabilities | |
| Intergovernmental Payable | \$3,403,274 |
| Due to Others | <u>380,584</u> |
| <i>Total Liabilities</i> | <u><u>\$3,783,858</u></u> |

See accompanying notes to the basic financial statements

City of Garfield Heights, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2008

Note 1 - Description of the City and Reporting Entity

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

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

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

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

On October 14, 2008, the Auditor of State's office declared the City of Garfield Heights to be in a state of fiscal emergency in accordance with Section 118.03, Ohio Revised Code. The declaration resulted in the establishment of a Financial Planning and Supervision Commission. The Commission is comprised of the Mayor of the City, Council President, three financial consultants from various corporations and/or organizations within the City and two representatives from the State of Ohio. The City has 120 days after the first meeting of the Commission to approve a financial recovery plan. Once the plan has been adopted, the City's discretion is limited in that all financial activity of the City must be in accordance with the plan. See Note 17 for more information on the City's fiscal emergency status.

Reporting Entity

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

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

City of Garfield Heights, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2008

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 13 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 unless those pronouncements conflict with or contradict GASB pronouncements. The more significant of the City's accounting policies are described below.

A. Basis of Presentation

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

Government-wide Financial Statements The statement of net assets and the statement of activities display information about the City as a whole. These statements include the financial activities of the primary government, except for fiduciary funds. These statements usually distinguish between those activities of the City that are governmental and those that are considered business-type. The City, however, has no business-type activities.

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

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

City of Garfield Heights, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2008

B. Fund Accounting

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

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.

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

Fiduciary Fund

Fiduciary fund reporting focuses on net assets and changes in net assets. The fiduciary fund category is split into four classifications: pension trust funds, investment trust funds, private purpose trust funds and agency funds. Trust funds are used to account for assets held by the City under a trust agreement for individuals, private organizations, or other governments and are therefore not available to support the City's own programs. The City has no trust funds. The City's agency funds are purely custodial (assets equal liabilities) and thus does not involve measurement of results of operations. The City's agency funds account for the municipal court's resources which are due to other cities and for bond proceeds to be used for the contractors' expenses for the repair, construction or improvement of the Transportation-Antenucci Boulevard.

C. Measurement Focus

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

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

City of Garfield Heights, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2008

other financing uses) of current financial resources. This approach differs from the manner in which the governmental activities of the government-wide financial statements are prepared. Governmental fund financial statements therefore include a reconciliation with brief explanations to better identify the relationship between the government-wide statements and the statements for governmental funds.

D. Basis of Accounting

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

Revenues – Exchange and Non-exchange Transactions

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

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

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

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

Property taxes for which there is an enforceable legal claim as of December 31, 2008, but which were levied to finance year 2009 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.

City of Garfield Heights, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2008

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 and final budgeted amounts on the budgetary statements reflect the amounts on the certificate of estimated resources when the original and final appropriations were enacted by Council.

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

F. Cash and Cash Equivalents

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

Due to the poor financial condition of the City several funds made advances to the general fund, recreation, street construction maintenance and repair and federal nutrition special revenue funds to eliminate the funds' negative cash balances. The general, special revenue and capital project funds have interfund payables for the amount of the advance received and the special revenue and capital projects funds have an interfund receivable for the same amount.

Investment procedures are restricted by the provisions of the Ohio Revised Code. Interest revenue credited to the general fund during 2008 amounted to \$18,668, all of which was assigned from other City funds.

The City utilizes a financial institution to account for bond proceeds. The balance in this account is presented as "Cash and Cash Equivalents with Fiscal Agents."

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

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

City of Garfield Heights, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2008

G. Inventory

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

H. Prepaid Items

Payments made to vendors for services that will benefit periods beyond December 31, 2008 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 those assets not specifically related to activities reported in the proprietary funds. These assets generally result from expenditures in the governmental funds. General capital assets are reported in the governmental activities column of the government-wide statement of net assets but are not reported in the fund financial statements.

All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. The City was able to estimate the historical cost for the initial reporting of infrastructure by back trending (i.e., estimating the current replacement cost of the infrastructure to be capitalized and using an appropriate price-level index to deflate the cost to the acquisition year or estimated acquisition year). Donated capital assets are recorded at their fair market values as of the date received. The City does not have a capitalization threshold. Improvements are capitalized; the costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not.

All capital assets are depreciated except for land and construction in progress. Improvements are depreciated over the remaining useful lives of the related capital assets. Useful lives for infrastructure were estimated based on the City's historical records of necessary improvements and replacement. Depreciation is computed using the straight-line method over the following useful lives:

| <u>Description</u> | <u>Estimated Lives</u> |
|-----------------------------------|------------------------|
| Buildings | 10 - 45 years |
| Improvements Other than Buildings | 10 - 45 years |
| Vehicles | 6 - 20 years |
| Machinery and Equipment | 1 - 20 years |
| Furniture and Fixtures | 5 - 20 years |
| Infrastructure | 25 - 50 years |

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

J. Interfund Balances

On fund financial statements, outstanding interfund loans and unpaid amounts for interfund services are reported as "interfund receivables/payables." Interfund loans which do not represent available expendable resources are offset by a fund balance reserve account. Interfund balance amounts are eliminated in the statement of net assets. Due to the financial difficulties of the City a "Due to Agency Fund" and "Due to Governmental Fund" was used established.

City of Garfield Heights, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2008

K. Compensated Absences

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

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

L. Accrued and Long-term Obligations

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

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

M. Fund Balance Reserves

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

N. Net Assets

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowing used for the acquisition, construction or improvement of those assets. Net assets are reported as restricted when there are limitations imposed on their use either through constitutional provisions or enabling legislation or through external restrictions imposed by creditors, grantors or laws or regulations of other governments. The government-wide statement of net assets reports \$3,398,892 of restricted net assets, none of which is restricted by enabling legislation. Net assets restricted for other purposes include community development and street maintenance.

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

City of Garfield Heights, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2008

O. Internal Activity

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

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

P. Bond Issuance Costs

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

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

Q. Bond Premium

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

R. Gain/Loss on Refunding

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

S. Extraordinary and Special Items

Extraordinary items are transactions or events that are both unusual in nature and infrequent in occurrence. Special items are transactions or events that are within the control of the City Administration and that are either unusual in nature or infrequent in occurrence.

T. Estimates

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

City of Garfield Heights, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2008

Note 3 - Change in Accounting Principles

For 2008, the City has implemented Governmental Accounting Standards Board (GASB) Statement No. 49, "Accounting and Financial Reporting for Pollution Remediation Obligations". GASB Statement No. 49 addresses accounting and financial reporting standards for pollution (including contamination) remediation obligations, which are obligations to address the current and potential detrimental effect of existing pollution by participating in pollution remediation activities such as site assessments and cleanups. The implementation of this Statement did not result in any change to the City's financial statements.

Note 4 - Budgetary Basis of Accounting

While reporting financial position, results of operations, and changes in fund balances on the basis of generally accepted accounting principles (GAAP basis), the budgetary basis as provided by law is based upon accounting for transactions on a basis of cash receipts, disbursements and encumbrances. The Statement of Revenues, Expenditures, and Changes in Fund Balance - Budget (Non-GAAP Basis) and Actual are presented in the basic financial statements for the general fund. The major differences between the budget basis and the GAAP basis (generally accepted accounting principles) are:

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

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

| Net Change in Fund Balance | |
|---|---------------------------|
| GAAP Basis | \$1,725,899 |
| Net Adjustment for Revenue Accruals | (898,013) |
| Beginning Unrecorded Cash | 111,683 |
| Ending Unrecorded Cash | 550,927 |
| Net Adjustment for Expenditure Accruals | (1,582,345) |
| Encumbrances | <u>(355,486)</u> |
| Budget Basis | <u><u>(\$447,335)</u></u> |

City of Garfield Heights, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2008

Note 5 - Accountability and Compliance

A. Accountability

The following funds had deficit fund balances as of December 31, 2008:

| | |
|---|-------------|
| General Fund | \$1,477,864 |
| Special Revenue Funds | |
| Police Pension | 471,040 |
| Fire Pension | 427,475 |
| Recreation | 215,630 |
| Street Construction, Maintenance and Repair | 783,438 |
| Federal Nutrition | 769,180 |
| Capital Projects Fund | |
| Permanent Improvement | 442,910 |

The general fund concluded 2008 with a deficit fund balance of \$1,477,864. The City has experienced a financial shortfall which has resulted in deficit spending in the general fund. To alleviate the financial shortfall, the City has developed a strategy to stabilize its cash shortfall. See Notes 17 for further information.

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

B. Compliance

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

| Fund | Appropriations Plus Prior Year Encumbrances | Expenditures Plus Encumbrances | Excess |
|------------------------------------|---|--------------------------------------|-----------|
| General Fund | | | |
| General Government | | | |
| School Guards | | | |
| Personal Services | | | |
| Pensions | \$12,250 | \$15,691 | (\$3,441) |
| Building Standards and Maintenance | | | |
| Personal Services | | | |
| Pensions | 87,850 | 97,751 | (9,901) |
| Materials and Supplies | | | |
| Operating Supplies | 2,300 | 2,611 | (311) |

City of Garfield Heights, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2008

| Fund | Appropriations Plus Prior Year Encumbrances | Expenditures Plus Encumbrances | Excess |
|------------------------------------|---|--------------------------------------|-----------|
| General Fund (continued) | | | |
| Administration Support | | | |
| Personal Services | | | |
| Pensions | \$60,000 | \$69,619 | (\$9,619) |
| Materials and Supplies | | | |
| Office Supplies | 1,000 | 3,789 | (2,789) |
| Legislative | | | |
| Personal Services | | | |
| Pensions | 17,050 | 19,165 | (2,115) |
| Medicare Reimbursement | 0 | 400 | (400) |
| Contractual Services | | | |
| Special Services | 0 | 64 | (64) |
| Materials and Supplies | | | |
| Office Supplies | 0 | 75 | (75) |
| Legal Administration | | | |
| Personal Services | | | |
| Pensions | 87,500 | 96,253 | (8,753) |
| Training and Education | 2,000 | 2,275 | (275) |
| Contractual Services | | | |
| Special Services | 94,576 | 114,896 | (20,320) |
| Court | | | |
| Personal Services | | | |
| Hospitalization and Life Insurance | 375,000 | 619,670 | (244,670) |
| Employee Bonds | | | |
| Bonds and Insurance | 0 | 100 | (100) |
| Lands and Buildings | | | |
| Personal Services | | | |
| Pensions | 96,500 | 116,419 | (19,919) |
| Civil Service Commission | | | |
| Personal Services | | | |
| Pensions | 700 | 780 | (80) |
| Miscellaneous | | | |
| Personal Services | | | |
| Unemployment Compensation | 5,000 | 9,402 | (4,402) |
| Workers Compensation | 508,050 | 604,181 | (96,131) |
| Contractual Services | | | |
| Bank Service Charge | 4,800 | 5,868 | (1,068) |
| Ambulance Service Charge | 1,950 | 2,148 | (198) |
| Other | | | |
| Liability Insurance | 107,000 | 136,491 | (29,491) |
| Insurance Claims | 6,000 | 9,344 | (3,344) |
| State Examiner | 30,000 | 37,131 | (7,131) |
| Recoverable Expenditure | 0 | 402 | (402) |
| Transfers | | | |
| Trans-CFGF | 0 | 8,073 | (8,073) |

City of Garfield Heights, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2008

| Fund | Appropriations Plus Prior Year Encumbrances | Expenditures Plus Encumbrances | Excess |
|--|---|--------------------------------------|-----------|
| General Fund (continued) | | | |
| Security of Persons and Property | | | |
| Police Department-General Law Enforcement | | | |
| Personal Services | | | |
| Training and Education | 13,265 | 15,939 | (2,674) |
| Dues and Subscriptions | 675 | 6,085 | (5,410) |
| Materials and Supplies | | | |
| Office Supplies | 5,320 | 6,583 | (1,263) |
| Police Department-Correctional Institution | | | |
| Personal Services | | | |
| Pensions | 49,000 | 55,981 | (6,981) |
| Contractual Services | | | |
| Special Services | 12,525 | 14,370 | (1,845) |
| Police Communication | | | |
| Personal Services | | | |
| Pensions | 79,100 | 89,183 | (10,083) |
| Fire Prevention | | | |
| Personal Services | | | |
| Uniform/Clothing | 0 | 256 | (256) |
| Contractual Services | | | |
| Special Services | 55,156 | 64,282 | (9,126) |
| Public Health and Welfare | | | |
| Animal Control | | | |
| Contractual Services | | | |
| Special Services | 2,700 | 5,790 | (3,090) |
| Community Environment | | | |
| Planning and Zoning | | | |
| Personal Services | | | |
| Pensions | 1,565 | 1,794 | (229) |
| Economic Development | | | |
| Personal Services | | | |
| Pensions | 26,725 | 29,681 | (2,956) |
| Training and Education | 250 | 370 | (120) |
| Basic Utility Service | | | |
| Solid Waste Disposal | | | |
| Contractual Services | | | |
| Special Services | 1,352,600 | 1,786,088 | (433,488) |
| Recreation Fund | | | |
| Leisure Time Activities | | | |
| Recreation Board | | | |
| Personal Services | | | |
| Pensions | 215 | 251 | (36) |
| Administration | | | |
| Personal Services | | | |
| Pensions | 71,500 | 83,074 | (11,574) |
| Workers Compensation | 26,600 | 31,638 | (5,038) |
| Telephone | 600 | 667 | (67) |

City of Garfield Heights, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2008

| Fund | Appropriations Plus Prior Year Encumbrances | Expenditures Plus Encumbrances | Excess |
|---|---|--------------------------------------|-----------|
| <i>Recreation Fund (continued)</i> | | | |
| Swim, Golf, Tennis | | | |
| Personal Services | | | |
| Salaries and Wages | \$40,000 | \$44,600 | (\$4,600) |
| Pensions | 5,600 | 6,236 | (636) |
| Contractual Services | | | |
| Special Services | 500 | 696 | (196) |
| Skating | | | |
| Other | | | |
| Refunds and Reimbursements | 500 | 1,002 | (502) |
| Organized Sports | | | |
| Personal Services | | | |
| Pensions | 3,500 | 4,805 | (1,305) |
| Other | | | |
| Refunds and Reimbursements | 750 | 885 | (135) |
| <i>Street Construction Maintenance and Repair Fund</i> | | | |
| Transportation | | | |
| Traffic Control | | | |
| Contractual Services | | | |
| Special Services | 51,500 | 58,714 | (7,214) |
| Street Construction | | | |
| Personal Services | | | |
| Pensions | 105,000 | 128,689 | (23,689) |
| <i>Storm and Sanitary Sewer Fund</i> | | | |
| Basic Utility Service | | | |
| Personal Services | | | |
| Pensions | 14,500 | 16,273 | (1,773) |
| Hospitalization and Life Insurance | 31,000 | 39,580 | (8,580) |
| <i>Federal Nutrition Budget Program Fund</i> | | | |
| Public Health and Welfare | | | |
| Personal Services | | | |
| Workers Compensation | 8,704 | 10,352 | (1,648) |
| Contractual Services | | | |
| Special Services | 11,705 | 31,145 | (19,440) |
| Materials and Supplies | | | |
| Office Supplies | 200 | 2,170 | (1,970) |
| Operating Supplies | 7,100 | 9,368 | (2,268) |
| Other | | | |
| Refunds and Reimbursements | 0 | 283 | (283) |
| <i>Municipal Court Probation Service Fund</i> | | | |
| General Government | | | |
| Personal Services | | | |
| Salaries and Wages | 104,000 | 128,897 | (24,897) |
| Pensions | 14,560 | 19,530 | (4,970) |
| Workers Compensation | 4,900 | 5,832 | (932) |

City of Garfield Heights, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2008

| Fund | Appropriations Plus Prior Year Encumbrances | Expenditures Plus Encumbrances | Excess |
|--|---|--------------------------------------|-----------|
| <i>Municipal Court Special Service Fund</i> | | | |
| General Government | | | |
| Contractual Services | | | |
| Special Services | 6,220 | 10,015 | (3,795) |
| <i>Municipal Court Capital Improvement Fund</i> | | | |
| General Government | | | |
| Personal Services | | | |
| Pensions | 8,820 | 10,295 | (1,475) |
| Training and Education | 3,000 | 3,613 | (613) |
| Workers Compensation | 980 | 1,166 | (186) |
| Materials and Supplies | | | |
| Operating Supplies | 9,514 | 34,675 | (25,161) |
| <i>Transportation/Antenucci Improvement 04 Fund</i> | | | |
| Capital Outlay | | | |
| Contractual Services | | | |
| Tiff - Trustee | 1,458,356 | 1,864,796 | (406,440) |
| Tiff - Schools | 586,398 | 662,570 | (76,172) |
| <i>Revolving Fund</i> | | | |
| General Government | | | |
| Personal Services | | | |
| Pensions | 50,000 | 59,343 | (9,343) |
| Workers Compensation | 10,175 | 12,101 | (1,926) |
| Materials and Supplies | | | |
| Office Supplies | 1,307 | 7,821 | (6,514) |
| Diesel Fuel | 77,625 | 106,198 | (28,573) |

The City had negative cash fund balances in the following funds indicating that revenue from other sources were used to pay obligations of these funds contrary to Ohio Revised Code Section 5705.10(H):

| | |
|---|-------------|
| <i>General Fund</i> | \$1,587,020 |
| <i>Special Revenue Funds</i> | |
| Recreation | 114,433 |
| Street Construction, Maintenance and Repair | 477,849 |
| Federal Nutrition | 681,992 |
| <i>Debt Service Fund</i> | |
| Bond Retirement Fund | 31,992 |

The following funds had appropriations in excess of estimated resources as reported on the Official Certificate of Estimated Resources at December 31, 2008.

| Fund | Estimated Resources | Appropriations | Variance |
|------------------------------------|------------------------|----------------|-------------|
| Federal Nutrition Budget Fund | \$72,146 | 458,740 | (\$386,594) |
| Municipal Capital Improvement Fund | 179,767 | 275,105 | (95,338) |
| Street Improvement Note 2007 Fund | 2,263,246 | 2,266,633 | (3,387) |
| Revolving Equipment Fund | (133,877) | 1,214,465 | (1,348,342) |

City of Garfield Heights, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2008

The City does not record encumbrances during the year contrary to Ohio Revised Code Section 5705.41(D)(1).

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

Note 6 - Deposits and Investments

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

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

Inactive deposits are public deposits that Council has identified as not required for use within the current five year period of designation of depositories. Inactive deposits must either be evidenced by certificates of deposit maturing not later than the end of the current period of designation of depositories, or by savings or deposit accounts including, but not limited to, passbook accounts.

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

Interim monies held by the City can be deposited or invested in the following securities:

1. United States Treasury bills, bonds, notes or any other obligation or security issued by the United States Treasury, or any other obligation guaranteed as to principal and interest by the United States;
2. Bonds, notes, debentures, or any other obligations or securities issued by any federal government agency or instrumentality, including, but not limited to, Federal National Mortgage Association, Federal Home Loan Bank, Federal Farm Credit Bank, Federal Home Loan Mortgage Corporation, Government National Mortgage Association, and Student Loan Marketing Association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;
3. Written repurchase agreements in securities listed above;
4. Bonds and other obligations of the State of Ohio;
5. Time certificates of deposit or savings or deposit accounts including, but not limited to, passbook accounts;
6. No-load money market mutual funds consisting exclusively of obligations described in division (1) or (2);
7. The State Treasurer's investment pool (STAROhio); and
8. Commercial paper and bankers acceptances if training requirements have been met.

City of Garfield Heights, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2008

The City may also invest any monies not required to be used for a specific period of six months or more in the following:

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

Investments in stripped principal or interest obligations, reverse repurchase agreements and derivatives are prohibited. The issuance of taxable notes for the purpose of arbitrage, the use of leverage and short selling are also prohibited. Investments may only be made through specified dealers and institutions.

Custodial credit risk for deposits is the risk that in the event of bank failure, the City will not be able to recover deposits or collateral securities that are in possession of an outside party. At year end, \$431,039 of the City's bank balance of \$1,072,744 was uninsured and uncollateralized. Although the securities were held by the pledging financial institutions' trust department and all statutory requirements for the deposit of money had been followed, noncompliance with Federal requirements could potentially subject the City to a successful claim by the Federal Deposit Insurance Corporation.

The City has no deposit policy for custodial risk beyond the requirements of State statute. Ohio law requires that deposits be either insured or be protected by eligible securities pledged to and deposited either with the City or a qualified trustee by the financial institution as security for repayment, or by a collateral pool of eligible securities deposited with a qualified trustee and pledged to secure the repayment of all public monies deposited in the financial institution whose market value at all times shall be at least one hundred five percent of the deposits being secured.

Note 7 - Contingencies

A. Grants

The City receives financial assistance from federal and state agencies in the form of grants. The disbursements of funds received under these programs generally require compliance with terms and conditions specified in the grant agreements and are subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the general fund or other applicable funds. However, in the opinion of management, any such disallowed claims will not have a material effect on the overall financial position of the City at December 31, 2008.

B. Litigation

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

Note 8 – Receivables

Receivables at December 31, 2008 consisted primarily of property taxes, payments in lieu of taxes, intergovernmental and interfund receivables and special assessments.

City of Garfield Heights, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2008

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

Special assessments expected to be collected in more than one year amount to \$859,299 in the bond retirement fund. At December 31, 2008 the amount of delinquent special assessments was \$80,937.

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 2008 for real and public utility property taxes represents collections of the 2007 taxes. Property tax payments received during 2008 for tangible personal property (other than public utility property) is for 2008 taxes.

2008 real property taxes are levied after October 1, 2008 on the assessed value as of January 1, 2008, the lien date. Assessed values are established by State law at 35 percent of appraised market value. 2008 real property taxes are collected in and intended to finance 2009.

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

Public utility tangible personal property currently is assessed at varying percentages of true value; public utility real property is assessed at 35 percent of true value. 2008 public utility property taxes became a lien December 31, 2007, are levied after October 1, 2008, and are collected in 2009 with real property taxes.

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

The full tax rate for all City operations for the year ended December 31, 2008 was \$21.90 per \$1,000 of assessed value. The assessed values of real and tangible personal property upon which 2008 property tax receipts were based are as follows:

| | |
|----------------------------|-----------------------------|
| Real Estate | |
| Residential/Agricultural | \$389,922,500 |
| Other Real Estate | 93,348,790 |
| Tangible Personal Property | |
| Public Utility | 8,069,800 |
| General | 13,191,327 |
| Total | <u><u>\$504,532,417</u></u> |

The County Treasurer collects property taxes on behalf of all taxing districts in the County, including the City of Garfield Heights. The County Auditor periodically remits to the City its portion of the taxes collected. Property taxes receivable represents real and tangible personal property taxes, public utility taxes and outstanding delinquencies which are measurable as of December 31, 2008 and for which there is an enforceable legal claim. In the general fund; street lighting, police pension, fire pension and recreation

City of Garfield Heights, Ohio
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For the Year Ended December 31, 2008

special revenue funds; general obligation bond debt service fund and the permanent improvement capital projects fund, the entire receivable has been offset by deferred revenue since the current taxes were not levied to finance operations and the collection of delinquent taxes during the available period is not subject to reasonable estimation. On a full accrual basis, delinquent property taxes have been recorded as revenue while the remainder of the receivable is deferred.

B. Income Taxes

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

C. Intergovernmental Receivables

A summary of the principal items of intergovernmental receivables follows:

| | <i>Amount</i> |
|--|--------------------|
| Local Government | \$873,201 |
| Homestead and Rollback | 738,360 |
| Gas Tax | 411,871 |
| Grants | 154,303 |
| Various Cities | 99,586 |
| Motor Vehicle License | 98,819 |
| Permissive Tax | 83,807 |
| Cuyahoga County | 58,417 |
| Inheritance Tax | 30,928 |
| City of Bedford | 13,171 |
| State of Ohio | 6,228 |
| <i>Total Intergovernmental Receivables</i> | <i>\$2,568,691</i> |

D. Payments in Lieu of Taxes

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

City of Garfield Heights, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2008

taxes and may therefore spread the costs of the improvements to a larger number of property owners. A portion of the payments in lieu of taxes the City receives is due to the Garfield Heights City School District and the Port Authority. The receivable for this portion has been reported in the City's agency fund.

Note 9 - Capital Assets

Capital asset activity for the year ended December 31, 2008, was as follows:

| | Balance 12/31/07 | Additions | Deductions | Balance 12/31/08 |
|--|---------------------|----------------------|------------------|---------------------|
| Governmental Activities | | | | |
| <i>Capital Assets, Not Being Depreciated</i> | | | | |
| Land | \$1,540,427 | \$0 | (\$1,485) | \$1,538,942 |
| Construction in Progress | 518,118 | 108,814 | 0 | 626,932 |
| <i>Total Capital Assets, Not Being Depreciated</i> | <u>2,058,545</u> | <u>108,814</u> | <u>(1,485)</u> | <u>2,165,874</u> |
| <i>Capital Assets, Being Depreciated</i> | | | | |
| Buildings | 15,820,113 | 0 | 0 | 15,820,113 |
| Improvements Other than Buildings | 4,456,578 | 0 | 0 | 4,456,578 |
| Vehicles | 5,152,800 | 945,952 | (524,039) | 5,574,713 |
| Machinery and Equipment | 4,695,701 | 116,669 | (3,270) | 4,809,100 |
| Furniture and Fixtures | 681,817 | 0 | 0 | 681,817 |
| Infrastructure | | | | |
| Roads | 24,906,863 | 0 | 0 | 24,906,863 |
| Sanitary Sewers | 3,578,655 | 0 | 0 | 3,578,655 |
| Storm Sewers | 1,661,471 | 0 | 0 | 1,661,471 |
| Water Supply Lines | 661,641 | 0 | 0 | 661,641 |
| <i>Total Capital Assets, Being Depreciated</i> | <u>61,615,639</u> | <u>1,062,621</u> | <u>(527,309)</u> | <u>62,150,951</u> |
| <i>Less Accumulated Depreciation</i> | | | | |
| Buildings | (4,950,573) | (342,663) | 0 | (5,293,236) |
| Improvements Other than Buildings | (1,916,375) | (133,123) | 0 | (2,049,498) |
| Vehicles | (2,759,631) | (413,034) | 520,560 | (2,652,105) |
| Machinery and Equipment | (3,180,870) | (268,395) | 3,270 | (3,445,995) |
| Furniture and Fixtures | (485,982) | (25,844) | 0 | (511,826) |
| Infrastructure | | | | |
| Roads | (11,173,828) | (996,275) | 0 | (12,170,103) |
| Sanitary Sewers | (851,799) | (71,573) | 0 | (923,372) |
| Storm Sewers | (367,049) | (33,229) | 0 | (400,278) |
| Water Supply Lines | (134,717) | (13,233) | 0 | (147,950) |
| <i>Total Accumulated Depreciation</i> | <u>(25,820,824)</u> | <u>(2,297,369) *</u> | <u>523,830</u> | <u>(27,594,363)</u> |
| <i>Total Capital Assets being Depreciated, Net</i> | <u>35,794,815</u> | <u>(1,234,748)</u> | <u>(3,479)</u> | <u>34,556,588</u> |
| <i>Capital Assets, Net</i> | <u>\$37,853,360</u> | <u>(\$1,125,934)</u> | <u>(\$4,964)</u> | <u>\$36,722,462</u> |

City of Garfield Heights, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2008

* Depreciation expense was charged to governmental functions as follows:

| | |
|-----------------------------------|----------------------------------|
| General Government | \$426,907 |
| Security of Persons and Property | 438,864 |
| Public Health Services | 45,225 |
| Transportation | 1,118,577 |
| Community Development | 99 |
| Basic Utility Services | 140,101 |
| Leisure Time Activities | 127,596 |
| Total Depreciation Expense | <u><u>\$2,297,369</u></u> |

Note 10 - Compensated Absences

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

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

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

Note 11 – Interfund Transfers and Balances

A. Interfund Transfers

| Transfer To | Transfer From | | | Totals |
|--------------------------|---------------|-----------------|--------------------------|-------------|
| | General | Bond Retirement | Other Governmental Funds | |
| Bond Retirement | \$0 | \$0 | \$1,008,000 | \$1,008,000 |
| Other Governmental Funds | 1,276,899 | 415,691 | 0 | 1,692,590 |
| Totals | \$1,276,899 | \$415,691 | \$1,008,000 | \$2,700,590 |

City of Garfield Heights, Ohio
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For the Year Ended December 31, 2008

During 2008, the general fund transferred out \$1,276,899 to various other governmental funds. Of this total, \$476,799 was transferred to the police pension and \$402,027 to the fire pension special revenue funds. These two funds were set up as special revenue funds in past years in order to correctly identify a small percentage of the property tax revenues that were earmarked by the voters for the payment of pension amounts for the City's police and fire safety officers. After these tax revenues are received from the County through the property tax distributions, any remaining balance needed to pay the pension payments is transferred to these funds from the general fund. The remaining general fund transfers of \$52,500 to the recreation, \$8,073 to the community development and \$337,500 to the federal nutrition special revenue funds were all necessitated because those funds did not generate enough revenue to support the activities of the particular funds.

The bond retirement debt service fund transferred \$48,443 to the equipment acquisition, \$44,815 to the recreation center, \$46,633 to the street resurfacing, and \$275,800 to the various improvement capital projects funds to pay interest and fiscal charges on the note issues.

The motor vehicle license tax special revenue fund transferred \$350,000 and the storm and sanitary sewer capital project fund transferred \$658,000 to the bond retirement fund to pay interest and fiscal charges.

B. Interfund Balances

| Interfund Payable | Interfund Receivable | | |
|--------------------------|----------------------|--------------------------|-------------|
| | Bond Retirement | Other Governmental Funds | Total |
| General | \$65,188 | \$573,163 | \$638,351 |
| Other Governmental Funds | 0 | 1,361,069 | 1,361,069 |
| Totals | \$65,188 | \$1,934,232 | \$1,999,420 |

The interfund receivables and payables were the result of deficit cash balances and due to the timing of the receipt of grant monies at year end. All interfund balances are expected to be repaid within one year.

The Due from Governmental Fund and Due to Agency Fund of \$397,742 in the agency fund and general fund was the result of deficit cash balances and is expected to be repaid within one year.

City of Garfield Heights, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2008

Note 12 - Long-Term Obligations

Changes in long-term obligations of the City during the year ended December 31, 2008 were as follows:

| | Outstanding 12/31/2007 | Additions | Reductions | Outstanding 12/31/2008 | Amounts Due in One Year |
|---|---------------------------|-------------|---------------|---------------------------|-------------------------------|
| Governmental Activities | | | | | |
| General Obligation Bonds | | | | | |
| 1998 3.65%-4.6% \$2,645,000 | | | | | |
| Justice Center Refunding | \$640,000 | \$0 | (\$315,000) | \$325,000 | \$325,000 |
| 1998 3.65%-4.6% \$3,775,000 | | | | | |
| Civic Center Refunding | 2,455,000 | 0 | (230,000) | 2,225,000 | 240,000 |
| 1998 3.6%-4.6% \$4,460,000 | | | | | |
| Various Improvements | 2,910,000 | 0 | (210,000) | 2,700,000 | 225,000 |
| 2002 1.09%-5.55% \$7,300,000 | | | | | |
| Various Improvements | 6,615,000 | 0 | (205,000) | 6,410,000 | 215,000 |
| 2004 4.75% \$9,900,000 | | | | | |
| Various Improvements | 9,550,000 | 0 | (368,000) | 9,182,000 | 387,000 |
| 2006 4.00% \$1,885,000 | | | | | |
| Various Purpose Improvement Refunding Bonds | 1,685,000 | 0 | (215,000) | 1,470,000 | 225,000 |
| Unamortized Amount on Refunding (Gain) | 3,682 | 0 | (252) | 3,430 | 0 |
| Total Various Purpose Improvement Refunding Bonds | 1,688,682 | 0 | (215,252) | 1,473,430 | 225,000 |
| 2006 4.00% \$2,307,466 | | | | | |
| Various Purpose Refunding Bonds | 2,111,549 | 0 | (206,796) | 1,904,753 | 214,052 |
| Unamortized Amount on Refunding (Loss) | (65,265) | 0 | 4,392 | (60,873) | 0 |
| Total Various Purpose Refunding Bonds | 2,046,284 | 0 | (202,404) | 1,843,880 | 214,052 |
| 2006 4.00% \$2,790,000 | | | | | |
| Street Improvement | 2,790,000 | 0 | (130,000) | 2,660,000 | 135,000 |
| Unamortized Premium | 128,465 | 0 | (8,568) | 119,897 | 0 |
| Total Street Improvement | 2,918,465 | 0 | (138,568) | 2,779,897 | 135,000 |
| Total General Obligation Bonds | 28,823,431 | 0 | (1,884,224) | 26,939,207 | 1,966,052 |
| Special Assessment Bonds | | | | | |
| 2006 4.00% \$325,000 | | | | | |
| Various Purpose Improvement Refunding Bonds | 290,000 | 0 | (35,000) | 255,000 | 35,000 |
| 2006 4.00% \$872,534 | | | | | |
| Various Purpose Refunding Bonds | 798,451 | 0 | (78,204) | 720,247 | 80,948 |
| Total Special Assessment Bonds | 1,088,451 | 0 | (113,204) | 975,247 | 115,948 |
| Other Governmental Activities | | | | | |
| Notes Payable | | | | | |
| 2008 Equipment Acquisition; 3.15% | 0 | 2,608,000 | 0 | 2,608,000 | 0 |
| 2007 Equipment Acquisition; 4.28% | 1,135,000 | 0 | (1,135,000) | 0 | 0 |
| 2008 Street Improvement; 3.97% | 0 | 1,100,000 | 0 | 1,100,000 | 0 |
| 2007 Street Improvement; 3.97% | 1,225,000 | 0 | (1,225,000) | 0 | 0 |
| 2007 Recreation Center Improvement; 4.28% | 1,050,000 | 0 | (1,050,000) | 0 | 0 |
| 2008 Various Purpose; 3.68% | 0 | 1,800,000 | 0 | 1,800,000 | 0 |
| 2007 Various Purpose; 3.79% | 2,000,000 | 0 | (2,000,000) | 0 | 0 |
| Total Notes Payable | 5,410,000 | 5,508,000 | (5,410,000) | 5,508,000 | 0 |
| Compensated Absences Payable | 5,192,725 | 143,742 | 61,971 | 5,398,438 | 56,303 |
| Claims Payable | 626,781 | 5,781 | (248,466) | 384,096 | 290,648 |
| Police and Fire Pension Liability | 646,049 | 0 | (12,771) | 633,278 | 13,320 |
| Total Other Governmental Activities | 11,875,555 | 5,657,523 | (5,609,266) | 11,923,812 | 360,271 |
| Total Governmental Activities | \$41,787,437 | \$5,657,523 | (\$7,606,694) | \$39,838,266 | \$2,442,271 |

City of Garfield Heights, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2008

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

The \$2,608,000 notes were issued on June 26, 2008 and mature on June 26, 2009. The \$1,100,000 notes were issued on September 26, 2008 and mature on September 25, 2009. The \$1,800,000 notes were issued on November 14, 2008 and mature on June 14, 2009. The notes are backed by the full faith of City of Garfield Heights.

The City's overall legal debt margin was \$20,872,090 at December 31, 2008. Principal and interest requirements to retire long-term obligations outstanding at December 31, 2008 are as follows:

| | General Obligation Bonds | | Special Assessment Bonds | | Police and Fire Pension | |
|-----------|-----------------------------|--------------|-----------------------------|-----------|----------------------------|-----------|
| | Principal | Interest | Principal | Interest | Principal | Interest |
| 2009 | \$1,966,052 | \$1,230,953 | \$115,948 | \$44,789 | \$13,320 | \$26,775 |
| 2010 | 1,702,308 | 1,147,268 | 123,692 | 39,434 | 13,893 | 26,203 |
| 2011 | 1,775,564 | 1,073,984 | 126,436 | 33,566 | 14,489 | 25,606 |
| 2012 | 1,858,820 | 995,533 | 134,180 | 27,589 | 15,111 | 24,984 |
| 2013 | 1,944,076 | 915,499 | 136,924 | 20,308 | 15,760 | 24,334 |
| 2014-2018 | 8,611,933 | 3,262,873 | 338,067 | 25,925 | 89,555 | 110,916 |
| 2109-2023 | 6,314,000 | 1,497,055 | 0 | 0 | 110,512 | 89,960 |
| 2024-2028 | 2,704,000 | 261,964 | 0 | 0 | 136,374 | 64,097 |
| 2029-2033 | 0 | 0 | 0 | 0 | 168,286 | 32,185 |
| 2034-2035 | 0 | 0 | 0 | 0 | 55,978 | 2,358 |
| Totals | \$26,876,753 | \$10,385,129 | \$975,247 | \$191,611 | \$633,278 | \$427,418 |

Note 13 - Jointly Governed Organizations

Northeast Ohio Public Energy Council The City is a member of The Northeast Ohio Public Energy Council (NOPEC). NOPEC is a regional council of governments formed under Chapter 167 of the Ohio Revised Code. NOPEC was formed to serve as a vehicle for communities wishing to proceed jointly with an aggregation program for the purchase of electricity. NOPEC is currently comprised of 126 communities who have been authorized by ballot to purchase electricity on behalf of their citizens. The intent of NOPEC is to provide electricity at the lowest possible rates while at the same time insuring stability in prices by entering into long-term contracts with suppliers to provide electricity to the citizens of its member communities.

NOPEC is governed by a General Assembly made up of one representative from each member community. The representatives from each county then elect one person to serve on the eight-member NOPEC Board of Directors. The Board oversees and manages the operation of the aggregation program. The degree of control exercised by any participating government is limited to its representation in the General Assembly and on the Board. The City of Garfield Heights did not contribute to NOPEC during 2008. Financial information can be obtained by contacting Joseph Migliorini, the Board Chairman, at 175 South Main Street, Akron, Ohio 44308 or at the website www.nopecinfo.org.

City of Garfield Heights, Ohio
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For the Year Ended December 31, 2008

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 2008, the City of Garfield Heights contributed \$3,000 to the First Suburbs Consortium. Financial information can be obtained by contacting First Suburbs Consortium of Northeast Ohio Council of Governments, 40 Severance Circle, Cleveland Heights, Ohio 44118.

Note 14 - Defined Benefit Pension Plans

A. Ohio Public Employees Retirement System

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

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

Funding Policy – The Ohio Revised Code provides statutory authority for member and employer contributions. For the year ended December 31, 2008, members in state and local classifications contributed 10.0 percent of covered payroll and public safety and law enforcement members contributed 10.1 percent.

The City's contribution rate for 2008 was 14.0 percent, except for those plan members in law enforcement or public safety, for whom the City's contribution was 17.4 percent of covered payroll. The Ohio Revised Code provides statutory authority for member and employer contributions.

The City's required contributions for pension obligations to the traditional and combined plans for the years ended December 31, 2008, 2007, and 2006 were \$477,394, \$572,251, and \$639,038 respectively; 85.50 percent has been contributed for 2008 and 100 percent for 2007 and 2006. Contributions to the member-directed plan for 2008 were \$13,259 made by the City and \$9,471 made by the plan members.

City of Garfield Heights, Ohio
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B. Ohio Police and Fire Pension Fund

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

Funding Policy – Plan members are required to contribute 10.0 percent of their annual covered salary to fund pension obligations. The City’s contribution was 19.5 percent for police officers and 24.0 percent for firefighters. Contribution rates are established by State statute. For 2008, a portion of the City’s contribution equal to 6.75 percent of covered payroll was allocated to fund the post-employment health care plan. The City’s pension contributions to OP&F for police and firefighters were \$545,235 and \$529,565 for the year ended December 31, 2008, \$565,678 and \$544,733 for the year ended December 31, 2007 and \$491,688 and \$479,993 for the year ended December 31, 2006. 43.32 percent for police and 41.76 percent for firefighters has been contributed for 2008. The full amount has been contributed for 2007 and 2006.

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, 2008, the unfunded liability of the City was \$633,278 payable in semi-annual payments through the year 2035. This is an accounting liability of the City which will not vary.

Note 15 – Postemployment Benefits

A. Ohio Public Employees Retirement System

Plan Description – OPERS maintains a cost-sharing multiple-employer defined benefit post-employment health care plan for qualifying members of both the traditional and combined pension plans. Members of the member-directed plan do not qualify for ancillary benefits, including post-employment health care. The plan includes a medical plan, a prescription drug program and Medicare Part B premium reimbursement.

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

Disclosures for the health care plan are presented separately in the OPERS financial report which may be obtained by writing to OPERS, 277 East Town Street, Columbus, Ohio 43215-4642, or by calling 614-222-5601 or 800-222-7377.

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

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Employer contribution rates are expressed as a percentage of the covered payroll of active members. In 2008, state and local government employers contributed at a rate of 14.0 percent of covered payroll (17.40 percent for public safety and law enforcement). Each year, the OPERS Retirement Board determines the portion of the employer contribution rate that will be set aside for funding post-employment health care benefits. For 2008, the amount of employer contributions which was allocated to fund post-employment health care was 7.0 percent of covered payroll.

The OPERS Retirement Board is also authorized to establish rules for the payment of a portion of the health care benefits by the retiree or their surviving beneficiaries. Payment amounts vary depending on the number of covered dependents and the coverage selected.

The City's contributions allocated to fund post-employment health care benefits for the years ended December 31, 2008, 2007, and 2006 were \$477,394, \$376,932 and \$267,660 respectively; 69.97 percent has been contributed for 2008 and 100 percent for 2007 and 2006.

The Health Care Preservation Plan (HCPP) adopted by the OPERS Retirement Board on September 9, 2004 was effective January 1, 2007. Member and employer contribution rates increased as of January 1, 2006, January 1, 2007, and January 1, 2008, which allowed additional funds to be allocated to the health care plan.

B. Ohio Police and Fire Pension Fund

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

OP&F provides access to post-employment health care coverage for any person who receives or is eligible to receive a monthly service, disability, or survivor benefit check or is a spouse or eligible dependent child of such person.

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

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

Funding policy – OP&F's post-employment health care plan was established and is administered as an Internal Revenue Code 401(h) account within the defined pension plan, under the authority granted by the Ohio Revised Code to the OP&F Board of Trustees. The Ohio Revised Code sets the contribution rates for participating employers and for plan members to the OP&F. Participating employers are required to contribute to the pension plan at rates expressed as percentages of the payroll of active pension plan members, currently, 19.50 percent and 24.0 percent of covered payroll for police and fire employers, respectively.

The Board of Trustees is authorized to allocate a portion of the total employer contributions made to the pension plan to the 401(h) account as the employer contribution for retiree health care benefits. For the year ended December 31, 2008, the employer contribution allocated to the health care plan was 6.75 percent of covered payroll. The amount of employer contributions allocated to the health care plan each year is subject to the Trustees' primary responsibility to ensure that pension benefits are adequately funded and is limited by the provisions of Section 401(h).

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

The City's contributions to OP&F which were allocated to fund post-employment health care benefits for police and firefighters were \$288,654 and \$207,221 for the year ended December 31, 2008, \$299,477 and \$213,172 for the year ended December 31, 2007, and \$324,305 and \$228,920 for the year ended December 31, 2006. The full amount has been contributed for 2007 and 2006. 75.67 percent has been contributed for police and 74.16 percent has been contributed for firefighters for 2008.

Note 16 - 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 2008, the City contracted with Clarendon Insurance Company for various types of insurance as follows:

| Type | Coverage |
|---------------------------------|---|
| Property | \$29,323,643 |
| Inland Marine | 1,471,921 |
| Comprehensive General Liability | 1,000,000 per occurrence 3,000,000 aggregate |
| Police Professional Liability | 1,000,000 per occurrence 1,000,000 aggregate |
| Employment Practices | 1,000,000 per occurrence 1,000,000 aggregate |
| Vehicle Liability | 1,000,000 combined |
| Public Officials Liability | 1,000,000 per occurrence 1,000,000 annual |
| Umbrella Liability | 5,000,000 per occurrence |

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

The City manages employee health benefits on a self-insured basis. The employee health benefit plan provides basic hospital/medical/surgical plans with deductibles of \$100 per person and \$200 per family, with maximum out of pocket expenses, not including the deductibles, of \$500 per individual or family coverage. Medical Mutual of Ohio reviews all claims which are then paid by the City. An excess coverage insurance (stop-loss) policy covers claims in excess of \$125,000 per employee and an aggregate of \$2,857,559 per year. The benefit is paid by the fund that pays the salary for the employee and is based on historical cost information.

A health benefit claims liability of \$303,570 has been accrued in the general fund, recreation, federal nutrition, street maintenance and repair and municipal court probation services special revenue funds and storm and sewer and municipal court improvement services capital projects funds based on an estimate by the third party administrator. The liability reported at December 31, 2008 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.

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The City participates in the State Workers' Compensation retrospective rating and payment system. Once the City receives notice of the 2008 claims paid by the Bureau of Workers' Compensation, the City will reimburse the State for claims paid on the City's behalf. The payable is reclassified from claims payable to intergovernmental payable. This plan involves the payment of a minimum premium for administrative services and stop-loss coverage plus the actual claim costs for employees injured in 2008. The minimum premium portion of intergovernmental payable is \$387,613 and the actual claim costs are \$86,830. The maintenance of these benefits is accounted for in the general fund. Claims of \$384,096 have been accrued as a liability at December 31, 2008 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 2007 and 2008 were:

| | Balance <u>Beginning of Year</u> | Current <u>Year Claims</u> | Claim <u>Payments</u> | Change in Workers Compensation <u>Premium</u> | Balance at <u>End of Year</u> |
|------|-------------------------------------|-------------------------------|--------------------------|--|----------------------------------|
| 2007 | \$1,444,282 | \$3,340,034 | \$3,457,677 | (\$239,363) | 1,087,276 |
| 2008 | 1,087,276 | 2,207,444 | 2,407,574 | (199,480) | 687,666 |

Note 17 – Fiscal Emergency

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

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

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

Note 18 – Subsequent Events

On February 9, 2009, the City Council approved City Ordinance Number 10-2009, providing for an Early Retirement Incentive Plan to be established by the City for those employees who qualify under Ohio Public Employees Retirement System. The plan shall begin on July 1, 2009 and terminate on October 1, 2010. Early retirement service credit for each participating employee shall be purchased by the City in an amount

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equal to the lesser of three years of service credit or an amount of service credit equal to one-fifth of the total service credit of record credited to the participating employee in the Ohio Public Employees Retirement System, exclusive of the service credit purchased under this plan. The employee must also agree to retire within 90 days after receiving notice from the Ohio Public Employee Retirement System.

In accordance with Section 118.06, Ohio Revised Code, the Mayor must submit to the Financial Planning and Supervision Commission (“Commission”) a Financial Plan (“the Plan”) as approved by ordinance or resolution of the Garfield Heights City Council (“City Council”) within 120 days after the first meeting of the Commission. The City passed their financial recovery plan during March of 2009. The Plan identifies the actions to be taken by the City to restore the fiscal integrity of the City. It also serves as a master plan by which all future appropriation measures must comply and directs the correction of issues essential to financial recovery. The Financial Plan may be amended in the same manner as its initial passage.

On June 25, 2009, the City issued \$4,408,000 in notes, with an interest rate of 2.8 percent, for the purpose of retiring the \$2,608,000 equipment acquisition note and the \$1,800,000 various purpose note. The note matures on September 25, 2009.

City of Garfield Heights, Ohio
Management's Discussion and Analysis
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This Discussion and Analysis of The City of Garfield Heights' financial performance provides an overall review of the City's financial activities for the year ended December 31, 2007. The intent of this discussion and analysis is to look at the City's financial performance as a whole. Readers should also review the basic financial statements and the notes to the basic financial statements to enhance their understanding of the City's financial performance.

Financial Highlights

There are no financial highlights for the City of Garfield Heights for the year ended December 31, 2007. As you proceed through this discussion analysis you will notice that most revenues are down and major expenses are escalating, including expenses of the municipal court system which the City cannot control. Due to these circumstances the City's administration is looking into the cost effectiveness of reducing and/or closing down various City services and increasing various revenues through legislative enactments. The City of Garfield Heights is focusing on the continued and expanded development taking place in the I-480/Transportation Development Corridor which is discussed in some detail later in this analysis under the section titled "Current Financial Related Activities".

Using this Annual Financial Report

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

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

Reporting the City of Garfield Heights as a Whole

Statement of Net Assets and the Statement of Activities

While this document contains information about the funds used by the City to provide services to our citizens, the view of the City as a whole looks at all financial transactions and asks the question, "How did we do financially during 2007?" The Statement of Net Assets and the Statement of Activities answer this question. These statements include all assets and liabilities using the accrual basis of accounting similar to the accounting used by the private sector companies. This basis of accounting takes into account all of the current year's revenues and expenses regardless of when the cash is received or paid.

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

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

Reporting the City of Garfield Heights' Most Significant Funds

Fund Financial Statements

The analysis of the City's major funds begins on page 53. Fund financial reports provide detailed information about the City's major funds. Based on restrictions on the use of monies, the City has established many funds, which account for the multitude of services provided to the City's residents. However, these fund financial statements focus on the City's most significant funds. In the case of the City of Garfield Heights, the City's major funds are the General Fund and the Bond Retirement (debt service) Fund. All other funds of the City are grouped together in the category of Other Governmental Funds.

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

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

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 2007 compared to 2006.

(Table 1)
Net Assets

| | Governmental Activities | | |
|--------------------------|-------------------------|--------------|---------------|
| | 2007 | 2006 | Change |
| Assets | | | |
| Current and Other Assets | \$21,567,827 | \$21,275,481 | \$292,346 |
| Capital Assets, Net | 37,853,360 | 39,397,090 | (1,543,730) |
| <i>Total Assets</i> | \$59,421,187 | \$60,672,571 | (\$1,251,384) |

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(Table 1)
Net Assets (continued)

| | Governmental Activities | | |
|--|-------------------------|---------------------|----------------------|
| | 2007 | 2006 | Change |
| Liabilities | | | |
| Current and Other Liabilities | \$17,757,382 | \$15,652,807 | \$2,104,575 |
| Long-Term Liabilities: | | | |
| Due Within One Year | 2,551,218 | 2,444,362 | 106,856 |
| Due in More than One Year | 39,236,219 | 38,211,778 | 1,024,441 |
| <i>Total Liabilities</i> | <u>59,544,819</u> | <u>56,308,947</u> | <u>3,235,872</u> |
| Net Assets | | | |
| Invested in Capital Assets Net of Debt | 12,406,983 | 15,074,577 | (2,667,594) |
| Restricted: | | | |
| Capital Projects | 2,795,313 | 2,778,074 | 17,239 |
| Debt Service | 1,322,421 | 1,804,103 | (481,682) |
| Street Lighting | 171,497 | 131,563 | 39,934 |
| Courts | 92,912 | 25,581 | 67,331 |
| Other Purposes | 668,884 | 532,225 | 136,659 |
| Unrestricted (Deficit) | <u>(17,581,642)</u> | <u>(15,982,499)</u> | <u>(1,599,143)</u> |
| <i>Total Net Assets</i> | <u>(\$123,632)</u> | <u>\$4,363,624</u> | <u>(\$4,487,256)</u> |

Current and other assets increased by \$292,346 and capital assets (net of depreciation) decreased by \$1,543,730 thus creating a decrease in total assets of \$1,251,384.

Current and other liabilities increased by \$2,104,575 while long term liabilities due in one year increased by \$106,856 and due in more than one year increased by \$1,024,441, thus creating a total increase in liabilities of \$3,235,872. The City's investment in capital assets (net of related debt) decreased by \$2,667,594 from 2006.

The City's governmental activities net assets decreased by \$4,487,256, while unrestricted net assets decreased by \$1,599,143. Unrestricted assets are not enough to pay liabilities. This has been identified by the presentation of the financial statements. Management is discussing the long-term effect for the City. As mentioned above, current discussions have been in the areas of reducing and/or closing various non essential services, such as some leisure time activities and/or senior citizen services, along with a general reduction in all governmental areas. Management is also looking into the financial effects of increasing various revenues, such as the City's income tax, through a reduction in the 100 percent tax credit that the City currently affords its residents.

The City of Garfield Heights has been attempting to stabilize certain long-term liabilities such as compensated absences. In 2002, the City successfully negotiated various forms of accumulated vacation and sick leave buy backs. To this extent, the employees' may elect to "cash-in" a certain number of hours of these accrued leave balances in lieu of banking them for future use. This program is a win-win situation for the employees and the City. The employee wins by having the option of taking these dollars and investing in

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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, 2007, as compared to the changes in net assets for 2006.

Table 2
Changes in Net Assets

| | Governmental Activities | | |
|--|-------------------------|--------------------|----------------------|
| | 2007 | 2006 | Change |
| Revenues | | | |
| <i>Program Revenues</i> | | | |
| Charges for Services | \$3,796,603 | \$4,163,398 | (\$366,795) |
| Operating Grants and Contributions | 1,443,012 | 1,349,856 | 93,156 |
| Capital Grants and Contributions | 302 | 573,492 | (573,190) |
| <i>Total Program Revenues</i> | 5,239,917 | 6,086,746 | (846,829) |
| <i>General Revenues</i> | | | |
| Property Taxes | 9,387,710 | 9,581,454 | (193,744) |
| Municipal Income Taxes | 10,014,943 | 10,714,785 | (699,842) |
| Grants and Entitlements not Restricted to Specific Programs | 3,759,291 | 3,608,132 | 151,159 |
| Interest | 28,056 | 31,415 | (3,359) |
| Franchise Fees | 245,453 | 254,495 | (9,042) |
| Payments in Lieu of Taxes | 372,770 | 0 | 372,770 |
| Gain on Sale of Capital Assets | 18,575 | 0 | 18,575 |
| Other | 890,348 | 497,595 | 392,753 |
| <i>Total General Revenues</i> | 24,717,146 | 24,687,876 | 29,270 |
| <i>Total Revenues</i> | 29,957,063 | 30,774,622 | (817,559) |
| <i>Program Expenses</i> | | | |
| General Government | 9,628,182 | 9,465,422 | (162,760) |
| Security of Persons and Property | 13,198,000 | 11,934,993 | (1,263,007) |
| Public Health Services | 694,889 | 679,548 | (15,341) |
| Transportation | 4,801,498 | 4,997,993 | 196,495 |
| Community Development | 212,148 | 193,274 | (18,874) |
| Basic Utility Services | 2,329,338 | 2,218,971 | (110,367) |
| Leisure Time Activities | 1,923,507 | 1,152,890 | (770,617) |
| Interest and Fiscal Charges | 1,656,757 | 1,557,807 | (98,950) |
| <i>Total Program Expenses</i> | 34,444,319 | 32,200,898 | (2,243,421) |
| <i>Decrease in Net Assets</i> | (4,487,256) | (1,426,276) | (3,060,980) |
| Net Assets Beginning of Year | 4,363,624 | 5,789,900 | (1,426,276) |
| <i>Net Assets End of Year</i> | (\$123,632) | \$4,363,624 | (\$4,487,256) |

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Program revenues decreased by \$846,829 and general revenues increased by \$29,270 thus resulting in an overall decrease in total revenues of \$817,559. Total program expenses over this period increased by \$2,243,421. Security of persons and property and leisure time activities showed increases due to the depreciation of capital assets and salary increases offset by the reduction of \$196,495 in transportation expenses. The net effect of these revenue and expense increases was a decrease in net assets of \$4,487,256.

Governmental Activities

Several revenue sources fund our governmental activities. Under the accrual basis of accounting, the City income taxes accounted for \$10,014,934 or 33.43 percent of total revenues; property taxes accounted for \$9,387,710 or 31.34 percent of gross revenues; grants and entitlements accounted for \$3,759,291 or 12.55 percent of total revenues; and charges for services accounted for \$3,796,603 or 12.67 percent of total revenues. The income tax rate of 2.0 percent, with a 100 percent credit for payments made to other Cities, was approved by a vote of our citizens in 1982, which took effect in January of 1983.

Major expense activities, under the accrual basis of accounting, included: security of persons and property expenses which accounted for 38.32 percent of total program expenses; general government expenses which accounted for 27.95 percent; transportation which accounted for 13.94 percent; and basic utility services which accounted for 6.76 percent. Overall, there was an increase in program expenses of \$2,243,421 from 2006 program expense totals. The City is committed to providing the basic services that our residents expect.

The City's Funds

Information about the City's major governmental funds begins on page 60. These funds are accounted for using the modified accrual basis of accounting. Review of these statements reveals that all government funds had total revenues of \$30,894,640 and total expenditures of \$37,196,121. The net effect for all government funds was a negative (deficit) fund balance of \$2,544,535. This deficit fund balance represents an increase in the deficit fund balance that the City had at the end of 2006.

Garfield Heights has not been immune to the resulting economic conditions of our country brought on by the terrorist acts of 9-11, the effects of the recent war in the mid-east, the economic slow down, and the more recent housing crisis that has had a grip on this area of the country. A deeper analysis of these statements will show that the fund balance of the City's general fund, the City's main operational fund, has a deficit fund balance of \$3,203,763 at year end. There were many major factors that resulted in this negative fund balance. Some of these were regulatory changes such as: 1) a change in the personal property tax laws that resulted in lower collections; 2) a loss of inheritance tax revenue due to a change in State Law as to the size of an estate on which the tax applies; while other factors include an increase in the security of persons and property, leisure time activity, and basic utility services programs. As will be discussed later in this analysis, private development has continued in the City of Garfield Heights throughout this slowdown. It is through this new development that the City hopes to be able to stabilize the level of its income tax collections versus having a declining income tax base.

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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 2007, the City did not amend its general fund budget. All recommendations for any budget change come from the City Finance Director to the Finance Committee of Council for review before going to the whole Council for ordinance enactment on the change. The City does not allow budget changes that modify line items within departments without Council approval. With the general fund supporting many of the major activities such as the police and fire departments, as well as most legislative and executive activities, the general fund is monitored closely for possible revenue shortfalls or over spending by individual departments.

For the general fund, original and final budgeted revenues were \$24,159,552, and actual revenue collections were \$21,843,423. The major factors contributing to the decrease of actual revenues over the budgeted amounts were a decrease in the other revenue category of 942,564, a decrease in charges for services of \$805,086, a decrease in intergovernmental revenues of \$530,490, and a decrease in property and other taxes of \$379,252. The City of Garfield Heights' ending balance in the general fund was \$1,684,962 below the final budgeted amount, thus resulting in a deficit fund balance of \$1,811,661. Should the general economic conditions of the area continue their downward spiral, the City administration and elected officials will have to make some decisive decisions in regards to either some stricter controls placed on expenditures, increases in locally generated revenues, or some mix of the two, in order to avoid further economic distress to the City of Garfield Heights.

Capital Assets and General Long-Term Obligations

Capital Assets

Table 3
 Capital Assets at December 31, 2007
 (Net of Depreciation)

| | Governmental Activities | | |
|--------------------------|-------------------------|---------------------|----------------------|
| | 2007 | 2006 | Change |
| Land | \$1,540,424 | \$1,565,423 | (\$24,999) |
| Construction in Progress | 518,121 | 385,115 | 133,006 |
| Buildings | 13,409,744 | 13,885,588 | (475,844) |
| Vehicles | 2,393,169 | 2,336,446 | 56,723 |
| Machinery and Equipment | 1,514,832 | 1,605,248 | (90,416) |
| Furniture and Fixtures | 195,834 | 223,723 | (27,889) |
| Infrastructure | 18,281,236 | 19,395,547 | (1,114,311) |
| Total | \$37,853,360 | \$39,397,090 | (\$1,543,730) |

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Increases in capital assets not being depreciated, such as construction in progress, of \$108,004, and of depreciated capital assets of \$102,675, were offset by the effects of depreciation during 2007. Increases in accumulated depreciation thus resulted in a net decrease in total capital assets of \$1,543,730, or a decrease from 2006 of 3.92 percent. See note 9 for additional information on the City's capital assets.

Debt Obligations

At December 31, 2007 the City of Garfield Heights had \$29,911,882 in outstanding General Obligation Bonds and Special Assessment Bonds. The City's overall legal debt margin at December 31, 2007 was \$18,903,258. Table 4 indicates the total outstanding long-term obligations of the City.

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

| | Governmental Activities | | |
|--------------------------|-------------------------|--------------|---------------|
| | 2007 | 2006 | Change |
| General Obligation Bonds | \$28,823,431 | \$30,488,776 | (\$1,665,345) |
| Special Assessment Bonds | 1,088,451 | 1,197,534 | (109,083) |
| Notes | 5,410,000 | 2,440,000 | 2,970,000 |
| Police and Fire Loan | 646,049 | 658,292 | (12,243) |
| Total | \$35,967,931 | \$34,784,602 | \$1,183,329 |

During 2007, four new notes were issued, the Equipment Acquisition Note 2007, the Street Improvement Note 2007, the Recreation Center Improvement Note 2007, and the Various Purpose Note 2007, thus resulting in the increase in the Notes identified above. One of the City's major funds is the bond retirement fund, which is specifically set up for the accumulation and payment of the City's annual principal and interest requirements of the general obligation and special assessment bonds identified above.

The police and fire loan shown in Table 4 above, in the amount of \$646,049 identifies the City's accrued liability incurred when the State of Ohio established the statewide pension system for police and firefighters in 1967. Actual cash demands, for principal and interest for this obligation, total \$40,094 annually through the year 2035. See Note 12 for detailed long-term debt information.

Current Financial Related Activities

As is the case with many governmental agencies, dated infrastructure can be a problem, however, over the past 20 years, the City has taken a proactive stance in regards to dated infrastructure and plans to continue this effort of improving infrastructure as the need arises. Annually the City's engineer inspects roadways and suggests the worst for repair. For the period 1985 to 2000, the City expended, on average, \$750,000 annually on various roadway-maintenance resurfacing projects. During 2001, the City's roadway maintenance program totaled \$960,198 and during 2003 the City invested approximately \$1,500,000 in roadway maintenance. During 2006 the City completed the reconstruction of two major roads in the I-480/Transportation Business District, with an approximate value of \$2,000,000. Additionally, over the past ten years, the City has converted two of the last three septic sanitary tank areas to sanitary sewer service. The third of these septic areas has been amassed into a plot that is proposed for the future development project

City of Garfield Heights, Ohio
Management's Discussion and Analysis
For the Year Ended December 31, 2007
Unaudited

known as the Bridgeview Crossing Project. This development has been accomplished through the use of Federal and State grant funding; the issuance of special assessment bond issues, payable over 20 years by the affected property owners; and the issuance of general obligation debt.

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

During the period 1996 through 2001, the City also purchased and paid cash for over two million dollars worth of vehicles and equipment. Some of the items included in these purchases have been: a new pumper truck and ambulance for the fire department; on average seven new police cruisers per year; three new 13-passenger buses for senior citizen programs; and a variety of pickup trucks, vans, salt trucks, low pro dump trucks and other road and non-road equipment for service and recreation departments. During 2002, the City added over a million dollars worth of new vehicles to the City's vehicle fleet with over \$525,000 being paid for in cash. With 2003 and 2004 being lean years, the City's investment in the vehicle area was limited to maintaining the police cruiser rotation of 6-7 new cars a year. In 2005 the City leased to purchase vehicles totaling over \$600,000, and during 2006 the City invested in another \$318,975 worth of vehicles. In 2007 the City has added \$517,367 in vehicles to our fleet. New network computer systems for the City's police department, municipal court system and main administrative operations were also purchased throughout this time period.

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

New development and expansion, under the zoning districts identified above, is continuing in the Broadway Ave./McCracken Road Development District. In the fall of 2000 another newly constructed facility was completed in this area and occupancy by the owner took place. During 2003, the City was in the process of amassing a three-acre plot of land through our Land Revitalization Program. This plot will be combined with another five-acre plot that is currently in the Land Program, to be offered by the City for future development. Another factor that the City expects to increase development in this district over the next five to ten years is the decision, during 2001 by the Norfolk/Southern Railroad to locate a new Intermodal Facility off Broadway Avenue in our sister City of Maple Heights. This facility is located about a mile and a half from the City of Garfield Heights' border. Access to the Interstate Highway system from this location is via the Broadway Avenue entrance, which is in the City. This facility was constructed through the summer of 2001 and was operational in late fall 2001. The City's projection of increased development in this area, due to the Intermodal Facility, has already started. Two companies have already constructed and occupied office/warehouse buildings in this area. Another contractor/investor has amassed a 20-acre block of land in this area for future development. In addition to this private investment in this area, the City has recently been granted both a State Issue II and a Community Development Block Grant for the reconstruction of the East 131 Street/Broadway Intersection and the addition of another traffic lane in Broadway Avenue from East 131 Street to the I-480 entrance ramp. This improvement will help to spur the development in the Broadway

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Management's Discussion and Analysis
For the Year Ended December 31, 2007
Unaudited

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

New development and expansion is also continuing in the I-480/Transportation Development District. Through the 1990's, the City's economic development programs were responsible for the development of six multi-million dollar Office/Flex Space facilities in this development district. Additionally, during the late 1990's, another local land owner/developer proposed a project on land that he had amassed. The early plans for this project included office, light industrial, hotel, and restaurant space. The project was estimated to cost over \$1 billion and was slated for construction over a 10-year period. This project would encompass the extension of Transportation Boulevard through to Rockside Road and would reclaim approximately 200 acres of brownfield landfill property in the process. Realizing what an impact such development would have on the future economic condition of the City of Garfield Heights, the City administration became staunch supporters of this proposed development. In April of 2001, the City and developer received the preliminary EPA approval for this project. On May 18, 2001 there was a ceremonial ground breaking and the developer set a start date of June 2001. During 2001 the developer completed the first phase of the landfill reclamation process by moving around 700,000 cubic yards of buried rubbish in the old landfill. During much of 2002 and 2003 the logistics of the future of this project were being finalized. Another development group also entered into the picture during this time, the Heritage Development Corporation announced its intention to purchase and develop a particular portion of this area. This added to the overall logistics problems inherent in planning any big construction project. In late 2003 (early 2004) it was announced that most of the logistical problems had been rectified and that Heritage had completed the purchase of the land that it needed for development, and the actual development began. Today this new and vibrant retail shopping area is known as the City View Center, and is in full operation. This facility is now the home to many new retail establishments such as WalMart, Circuit City, OfficeMax, Dick's Sporting Goods, Giant Eagle, Starbucks, Joann Fabrics, Bed Bath & Beyond, and many more. The impact of these new businesses in the City is beginning to show through our income tax collections. It has been estimated that this development has helped to retain and/or create between 800 and 1,000 jobs in the City. In addition to the development on this side of I-480, another development group has amassed a block of land, through the buyout of residential housing in the last septic area of the City, on the opposite side of I-480, and has begun the clearing and grading of the land for their project. This group is proposing another retail, office and restaurant development called the "Bridgeview Crossing" project. When completed it is projected to include a Lowes and a Target store. This project is estimated at \$45 million and should create around 800 new jobs.

The City has experienced a financial shortfall which has resulted in deficit spending in the general fund and other less significant funds at December 31, 2007. To alleviate the financial shortfall, the City has developed a strategy to stabilize its cash shortfall in the aforementioned funds. See Note 18 for further information.

Contacting the City's Finance Department

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

City of Garfield Heights, Ohio

Statement of Net Assets

December 31, 2007

| | <u>Governmental Activities</u> |
|---|------------------------------------|
| Assets | |
| Equity in Pooled Cash and Cash Equivalents | \$1,610,484 |
| Cash and Cash Equivalents With Fiscal Agents | 183 |
| Accounts Receivable | 1,053,602 |
| Intergovernmental Receivable | 2,477,399 |
| Prepaid Items | 35,193 |
| Materials and Supplies Inventory | 57,119 |
| Municipal Income Taxes Receivable | 2,205,927 |
| Property Taxes Receivable | 12,558,095 |
| Special Assessments Receivable | 1,088,451 |
| Payments in Lieu of Taxes Receivable | 149,851 |
| Deferred Charges | 331,523 |
| Nondepreciable Capital Assets | 2,058,545 |
| Depreciable Capital Assets, Net | <u>35,794,815</u> |
| <i>Total Assets</i> | <u>59,421,187</u> |
| Liabilities | |
| Accounts Payable | 429,441 |
| Contracts Payable | 1,030,701 |
| Accrued Wages | 459,367 |
| Retainage Payable | 216,685 |
| Intergovernmental Payable | 2,109,098 |
| Deferred Revenue | 12,875,286 |
| Accrued Interest Payable | 176,309 |
| Claims Payable | 460,495 |
| Long-Term Liabilities: | |
| Due Within One Year | 2,551,218 |
| Due In More Than One Year | <u>39,236,219</u> |
| <i>Total Liabilities</i> | <u>59,544,819</u> |
| Net Assets | |
| Invested in Capital Assets, Net of Related Debt | 12,406,983 |
| Restricted for: | |
| Capital Projects | 2,795,313 |
| Debt Service | 1,322,421 |
| Street Lighting | 171,497 |
| Courts | 92,912 |
| Other Purposes | 668,884 |
| Unrestricted (Deficit) | <u>(17,581,642)</u> |
| <i>Total Net Assets</i> | <u><u>(\$123,632)</u></u> |

See accompanying notes to the basic financial statements

City of Garfield Heights, Ohio
Statement of Activities
For the Year Ended December 31, 2007

| | 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 | \$9,628,182 | \$1,594,580 | \$0 | \$0 | (\$8,033,602) |
| Security of Persons and Property | 13,198,000 | 1,542,542 | 0 | 0 | (11,655,458) |
| Public Health Services | 694,889 | 37,428 | 9,679 | 0 | (647,782) |
| Transportation | 4,801,498 | 87,348 | 1,433,333 | 0 | (3,280,817) |
| Community Development | 212,148 | 23,664 | 0 | 0 | (188,484) |
| Basic Utility Services | 2,329,338 | 182,805 | 0 | 302 | (2,146,231) |
| Leisure Time Activities | 1,923,507 | 328,236 | 0 | 0 | (1,595,271) |
| Interest and Fiscal Charges | 1,656,757 | 0 | 0 | 0 | (1,656,757) |
| Totals | \$34,444,319 | \$3,796,603 | \$1,443,012 | \$302 | (29,204,402) |

General Revenues

Property Taxes Levied for:

| | |
|------------------|-----------|
| General Purposes | 6,625,914 |
| Street Lighting | 493,177 |
| Police Pension | 128,656 |
| Fire Pension | 128,656 |
| Recreation | 64,328 |
| Debt Service | 1,518,129 |
| Capital Outlay | 428,850 |

Municipal Income Tax Levied for:

| | |
|---|-----------|
| General Purposes | 8,010,575 |
| Recreation | 634,496 |
| Street Construction, Maintenance and Repair | 747,418 |
| Federal Nutrition | 22,032 |
| Capital Outlay | 600,422 |

Grants and Entitlements not

| | |
|---------------------------------|-----------|
| Restricted to Specific Programs | 3,759,291 |
| Interest | 28,056 |
| Franchise Fees | 245,453 |
| Payments in Lieu of Taxes | 372,770 |
| Gain on Sale of Capital Assets | 18,575 |
| Other | 890,348 |

Total General Revenues

24,717,146

Change in Net Assets

(4,487,256)

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

4,363,624

Net Assets (Deficit) End of Year

(\$123,632)

See accompanying notes to the basic financial statements

City of Garfield Heights, Ohio

Balance Sheet

Governmental Funds

December 31, 2007

| | <u>General</u> | <u>Bond Retirement</u> | <u>Other Governmental Funds</u> | <u>Total Governmental Funds</u> |
|--|---------------------|----------------------------|---|---|
| Assets | | | | |
| Equity in Pooled Cash and | | | | |
| Cash Equivalents | \$0 | \$59,419 | \$1,551,065 | \$1,610,484 |
| Cash and Cash Equivalents | | | | |
| With Fiscal Agents | 0 | 0 | 183 | 183 |
| Accounts Receivable | 1,004,406 | 0 | 49,196 | 1,053,602 |
| Intergovernmental Receivable | 1,376,455 | 92,421 | 1,008,523 | 2,477,399 |
| Prepaid Items | 34,444 | 0 | 749 | 35,193 |
| Materials and Supplies Inventory | 28,788 | 0 | 28,331 | 57,119 |
| Interfund Receivable | 0 | 0 | 2,727,920 | 2,727,920 |
| Payments in Lieu of Taxes Receivable | 0 | 0 | 149,851 | 149,851 |
| Municipal Income Taxes Receivable | 1,654,444 | 154,415 | 397,068 | 2,205,927 |
| Property Taxes Receivable | 8,865,214 | 2,029,939 | 1,662,942 | 12,558,095 |
| Special Assessments Receivable | 0 | 1,088,451 | 0 | 1,088,451 |
| <i>Total Assets</i> | <u>\$12,963,751</u> | <u>\$3,424,645</u> | <u>\$7,575,828</u> | <u>\$23,964,224</u> |
| Liabilities | | | | |
| Accounts Payable | \$219,203 | \$0 | \$210,238 | \$429,441 |
| Contracts Payable | 582,436 | 0 | 448,265 | 1,030,701 |
| Accrued Wages | 392,797 | 0 | 66,570 | 459,367 |
| Retainage Payable | 0 | 0 | 216,685 | 216,685 |
| Intergovernmental Payable | 1,442,769 | 0 | 666,329 | 2,109,098 |
| Interfund Payable | 1,214,611 | 0 | 1,513,309 | 2,727,920 |
| Deferred Revenue | 11,930,596 | 3,318,826 | 3,825,630 | 19,075,052 |
| Claims Payable | 385,102 | 0 | 75,393 | 460,495 |
| <i>Total Liabilities</i> | <u>16,167,514</u> | <u>3,318,826</u> | <u>7,022,419</u> | <u>26,508,759</u> |
| Fund Balances | | | | |
| Reserved for Encumbrances | 60,575 | 27,938 | 62,571 | 151,084 |
| Unreserved, Undesignated, Reported in: | | | | |
| General Fund (Deficit) | (3,264,338) | 0 | 0 | (3,264,338) |
| Special Revenue Funds (Deficit) | 0 | 0 | (1,622,964) | (1,622,964) |
| Debt Service Funds | 0 | 77,881 | 0 | 77,881 |
| Capital Projects Funds | 0 | 0 | 2,113,802 | 2,113,802 |
| <i>Total Fund Balances (Deficit)</i> | <u>(3,203,763)</u> | <u>105,819</u> | <u>553,409</u> | <u>(2,544,535)</u> |
| <i>Total Liabilities and Fund Balances</i> | <u>\$12,963,751</u> | <u>\$3,424,645</u> | <u>\$7,575,828</u> | <u>\$23,964,224</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, 2007*

| | |
|--|---------------------------|
| Total Governmental Fund Balances | (\$2,544,535) |
| <i>Amounts reported for governmental activities in the statement of net assets are different because</i> | |
| Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds. | 37,853,360 |
| Other long-term assets are not available to pay for current-period expenditures and therefore are deferred in the funds: | |
| Property Taxes | 1,410,106 |
| Municipal Income Taxes | 1,543,072 |
| Intergovernmental | 2,128,309 |
| Charges for Services | 27,274 |
| Payments in Lieu of Taxes | 2,554 |
| Special Assessments | <u>1,088,451</u> |
| Total | 6,199,766 |
| In the statement of activities, interest is accrued on outstanding bonds, whereas in governmental funds, an interest expenditure is reported when due. | (176,309) |
| Bond issuance costs are considered deferred charges and will be amortized over the life of the bonds on the statement of net assets. | 331,523 |
| Long-term liabilities, including bonds payable are not due and payable in the current period and therefore are not reported in the funds: | |
| General Obligation Bonds | (28,823,431) |
| Special Assessment Bonds | (1,088,451) |
| Compensated Absences | (5,192,725) |
| Claims Payable | (626,781) |
| Police and Fire Liability | (646,049) |
| Notes Payable | <u>(5,410,000)</u> |
| Total | <u>(41,787,437)</u> |
| <i>Net Assets of Governmental Activities</i> | <u><u>(\$123,632)</u></u> |

See accompanying notes to the basic financial statements

City of Garfield Heights, Ohio
Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds
For the Year Ended December 31, 2007

| | General | Bond Retirement | Other Governmental Funds | Total Governmental Funds |
|--|-----------------------------|-------------------------|--------------------------------|--------------------------------|
| Revenues | | | | |
| Property Taxes | \$6,918,171 | \$1,581,800 | \$1,295,826 | \$9,795,797 |
| Municipal Income Taxes | 8,141,026 | 12,175 | 2,035,676 | 10,188,877 |
| Special Assessments | 0 | 109,083 | 0 | 109,083 |
| Charges for Services | 2,160,055 | 0 | 118,872 | 2,278,927 |
| Fees, Licenses and Permits | 249,111 | 0 | 309,321 | 558,432 |
| Fines and Forfeitures | 481,191 | 0 | 424,713 | 905,904 |
| Intergovernmental | 3,458,491 | 300,830 | 1,738,160 | 5,497,481 |
| Interest | 28,056 | 0 | 0 | 28,056 |
| Rentals | 26,066 | 0 | 0 | 26,066 |
| Franchise Fees | 245,453 | 0 | 0 | 245,453 |
| Payments in Lieu of Taxes | 0 | 0 | 370,216 | 370,216 |
| Other | 223,486 | 0 | 666,862 | 890,348 |
| <i>Total Revenues</i> | <u>21,931,106</u> | <u>2,003,888</u> | <u>6,959,646</u> | <u>30,894,640</u> |
| Expenditures | | | | |
| Current: | | | | |
| General Government | 9,038,214 | 16,008 | 192,624 | 9,246,846 |
| Security of Persons and Property | 10,885,201 | 0 | 1,542,764 | 12,427,965 |
| Public Health Services | 182,852 | 0 | 521,854 | 704,706 |
| Transportation | 0 | 0 | 2,896,711 | 2,896,711 |
| Community Development | 170,864 | 0 | 39,795 | 210,659 |
| Basic Utility Services | 1,329,129 | 0 | 515,183 | 1,844,312 |
| Leisure Time Activities | 0 | 0 | 1,144,508 | 1,144,508 |
| Capital Outlay | 0 | 0 | 3,028,789 | 3,028,789 |
| Debt Service: | | | | |
| Principal Retirement | 218,542 | 1,770,000 | 2,100,083 | 4,088,625 |
| Interest and Fiscal Charges | 9,500 | 1,456,436 | 137,064 | 1,603,000 |
| <i>Total Expenditures</i> | <u>21,834,302</u> | <u>3,242,444</u> | <u>12,119,375</u> | <u>37,196,121</u> |
| <i>Excess of Revenues Over (Under) Expenditures</i> | <u>96,804</u> | <u>(1,238,556)</u> | <u>(5,159,729)</u> | <u>(6,301,481)</u> |
| Other Financing Sources (Uses) | | | | |
| General Obligation Notes Issued | 0 | 0 | 5,410,000 | 5,410,000 |
| Sale of Capital Assets | 93,589 | 0 | 0 | 93,589 |
| Transfers In | 0 | 1,115,000 | 1,646,077 | 2,761,077 |
| Transfers Out | (1,646,077) | 0 | (1,115,000) | (2,761,077) |
| <i>Total Other Financing Sources (Uses)</i> | <u>(1,552,488)</u> | <u>1,115,000</u> | <u>5,941,077</u> | <u>5,503,589</u> |
| <i>Net Change in Fund Balances</i> | (1,455,684) | (123,556) | 781,348 | (797,892) |
| <i>Fund Balances (Deficit) Beginning of Year - Restated (See Note 3)</i> | <u>(1,748,079)</u> | <u>229,375</u> | <u>(227,939)</u> | <u>(1,746,643)</u> |
| <i>Fund Balances (Deficit) End of Year</i> | <u><u>(\$3,203,763)</u></u> | <u><u>\$105,819</u></u> | <u><u>\$553,409</u></u> | <u><u>(\$2,544,535)</u></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, 2007*

Net Change in Fund Balances - Total Governmental Funds (\$797,892)

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

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

| | | |
|----------------|-------------|-------------|
| Capital Outlay | 863,337 | |
| Depreciation | (2,303,635) | |
| | | |
| Total | | (1,440,298) |

Governmental funds only report the disposal of capital assets to the extent proceeds are received from the sale. In the statement of activities, a gain or loss is reported for each disposal. (103,432)

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

| | | |
|---------------------------|-----------|-----------|
| Property Taxes | (408,087) | |
| Municipal Income Taxes | (173,934) | |
| Intergovernmental | (294,876) | |
| Charges for Services | 27,274 | |
| Payments in Lieu of Taxes | 2,554 | |
| Special Assessments | (109,083) | |
| | | |
| Total | | (956,152) |

Repayment of long-term obligations is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets. 4,088,625

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

| | | |
|-------------------------------------|----------|----------|
| Accrued Interest on Bonds | (37,134) | |
| Amortization of Bond Issuance Costs | (21,051) | |
| Amortization of Loss on Refunding | (4,140) | |
| Amortization of Bond Premium | 8,568 | |
| | | |
| Total | | (53,757) |

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

| | | |
|----------------------|-----------|---------|
| Compensated Absences | (252,683) | |
| Claims | 438,333 | |
| | | |
| Total | | 185,650 |

Proceeds of notes in the governmental funds increase long-term liabilities in the statement of net assets. (5,410,000)

Change in Net Assets of Governmental Activities (\$4,487,256)

See accompanying notes to the basic financial statements

City of Garfield Heights, Ohio
Statement of Revenues, Expenditures and Changes
In Fund Balance - Budget (Non-GAAP Basis) and Actual
General Fund
For the Year Ended December 31, 2007

| | <u>Budgeted Amounts</u> | | | Variance with |
|---|-------------------------|--------------------|----------------------|--|
| | <u>Original</u> | <u>Final</u> | <u>Actual</u> | Final Budget Positive (Negative) |
| Revenues | | | | |
| Property Taxes | \$7,297,423 | \$7,297,423 | \$6,918,171 | (\$379,252) |
| Municipal Income Taxes | 7,730,062 | 7,730,062 | 8,205,472 | 475,410 |
| Charges for Services | 2,745,711 | 2,745,711 | 1,940,625 | (805,086) |
| Fees, Licenses and Permits | 269,084 | 269,084 | 245,358 | (23,726) |
| Fines and Forfeitures | 579,213 | 579,213 | 477,711 | (101,502) |
| Intergovernmental | 4,046,308 | 4,046,308 | 3,515,818 | (530,490) |
| Interest | 25,000 | 25,000 | 28,056 | 3,056 |
| Rentals | 29,000 | 29,000 | 26,066 | (2,934) |
| Franchise Fees | 254,494 | 254,494 | 245,453 | (9,041) |
| Other | 1,183,257 | 1,183,257 | 240,693 | (942,564) |
| <i>Total Revenues</i> | <u>24,159,552</u> | <u>24,159,552</u> | <u>21,843,423</u> | <u>(2,316,129)</u> |
| Expenditures | | | | |
| Current: | | | | |
| General Government | 8,579,415 | 8,579,415 | 8,859,157 | (279,742) |
| Security of Persons and Property | 10,718,765 | 10,718,765 | 10,260,553 | 458,212 |
| Public Health Services | 182,760 | 182,760 | 181,938 | 822 |
| Community Development | 165,445 | 165,445 | 161,384 | 4,061 |
| Basic Utility Services | 1,523,708 | 1,523,708 | 1,324,491 | 199,217 |
| <i>Total Expenditures</i> | <u>21,170,093</u> | <u>21,170,093</u> | <u>20,787,523</u> | <u>382,570</u> |
| <i>Excess of Revenues Over Expenditures</i> | <u>2,989,459</u> | <u>2,989,459</u> | <u>1,055,900</u> | <u>(1,933,559)</u> |
| Other Financing Sources (Uses) | | | | |
| Sale of Capital Assets | 93,589 | 93,589 | 93,589 | 0 |
| Transfers In | 71,000 | 71,000 | 0 | (71,000) |
| Transfers Out | (1,965,674) | (1,965,674) | (1,646,077) | 319,597 |
| <i>Total Other Financing Sources (Uses)</i> | <u>(1,801,085)</u> | <u>(1,801,085)</u> | <u>(1,552,488)</u> | <u>248,597</u> |
| <i>Net Change in Fund Balance</i> | 1,188,374 | 1,188,374 | (496,588) | (1,684,962) |
| <i>Fund Deficit Beginning of Year</i> | (1,644,225) | (1,644,225) | (1,644,225) | 0 |
| Prior Year Encumbrances Appropriated | 329,152 | 329,152 | 329,152 | 0 |
| <i>Fund Deficit End of Year</i> | <u>(\$126,699)</u> | <u>(\$126,699)</u> | <u>(\$1,811,661)</u> | <u>(\$1,684,962)</u> |

See accompanying notes to the basic financial statements

City of Garfield Heights, Ohio
Statement of Fiduciary Assets and Liabilities
Agency Funds
December 31, 2007

| | <u>Agency</u> |
|--|---------------------------|
| Assets | |
| Cash and Cash Equivalents in Segregated Accounts | \$1,034,900 |
| Payments in Lieu of Taxes Receivable | <u>2,958,416</u> |
| <i>Total Assets</i> | <u><u>\$3,993,316</u></u> |
| | |
| Liabilities | |
| Intergovernmental Payable | \$3,980,793 |
| Due to Others | <u>12,523</u> |
| <i>Total Liabilities</i> | <u><u>\$3,993,316</u></u> |

See accompanying notes to the basic financial statements

City of Garfield Heights, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2007

Note 1 - Description of the City and Reporting Entity

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

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

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

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

Reporting Entity

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

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

The City participates in the Northeast Ohio Public Energy Council and the First Suburbs Consortium of Northeast Ohio Council of Governments, jointly governed organizations. Information about the organizations is presented in Note 14 to the basic financial statements.

City of Garfield Heights, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2007

Note 2 - Summary of Significant Accounting Policies

The financial statements of the City of Garfield Heights have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The City also applies Financial Accounting Standards Board (FASB) Statements and Interpretations issued on or before November 30, 1989, to its governmental activities unless those pronouncements conflict with or contradict GASB pronouncements. The more significant of the City's accounting policies are described below.

A. Basis of Presentation

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

Government-wide Financial Statements The statement of net assets and the statement of activities display information about the City as a whole. These statements include the financial activities of the primary government, except for fiduciary funds. These statements usually distinguish between those activities of the City that are governmental and those that are considered business-type. The City, however, has no business-type activities.

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

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

B. Fund Accounting

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

City of Garfield Heights, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2007

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.

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

Fiduciary Fund

Fiduciary fund reporting focuses on net assets and changes in net assets. The fiduciary fund category is split into four classifications: pension trust funds, investment trust funds, private purpose trust funds and agency funds. Trust funds are used to account for assets held by the City under a trust agreement for individuals, private organizations, or other governments and are therefore not available to support the City's own programs. The City has no trust funds. The City's agency funds are purely custodial (assets equal liabilities) and thus does not involve measurement of results of operations. The City's agency funds account for the municipal court's resources which are due to other cities and for bond proceeds to be used for the contractors' expenses for the repair, construction or improvement of the Transportation-Antenucci Boulevard.

C. Measurement Focus

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

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

City of Garfield Heights, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2007

D. Basis of Accounting

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

Revenues – Exchange and Non-exchange Transactions

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

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

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

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

Property taxes for which there is an enforceable legal claim as of December 31, 2007, but which were levied to finance year 2008 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.

City of Garfield Heights, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2007

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 and final budgeted amounts on the budgetary statements reflect the amounts on the certificate of estimated resources when the original and final appropriations were enacted by Council.

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

F. Cash and Cash Equivalents

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

The storm and sewer, various improvement, equipment acquisition, recreation center and street improvement capital projects funds made advances to the general fund, recreation, street construction maintenance and repair, federal nutrition and community development special revenue funds and the permanent improvement capital projects fund to eliminate the funds' negative cash balances. The general, special revenue and capital project funds have interfund payables for the amount of the advance received and the capital projects funds has an interfund receivable for the same amount.

Investment procedures are restricted by the provisions of the Ohio Revised Code. Interest revenue credited to the general fund during 2007 amounted to \$28,056, all of which was assigned from other City funds.

The City utilizes a financial institution to account for bond proceeds. The balance in this account is presented as "Cash and Cash Equivalents with Fiscal Agents."

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

City of Garfield Heights, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2007

G. Inventory

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

H. Prepaid Items

Payments made to vendors for services that will benefit periods beyond December 31, 2007 are recorded as prepaid items using the consumption method. A current asset for the prepaid amount is recorded at the time of purchase and an expenditure/expense is reported in the year in which services are consumed.

I. Capital Assets

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

All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. The City was able to estimate the historical cost for the initial reporting of infrastructure by back trending (i.e., estimating the current replacement cost of the infrastructure to be capitalized and using an appropriate price-level index to deflate the cost to the acquisition year or estimated acquisition year). Donated capital assets are recorded at their fair market values as of the date received. The City does not have a capitalization threshold. Improvements are capitalized; the costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not.

All capital assets are depreciated except for land and construction in progress. Improvements are depreciated over the remaining useful lives of the related capital assets. Useful lives for infrastructure were estimated based on the City's historical records of necessary improvements and replacement. Depreciation is computed using the straight-line method over the following useful lives:

| <u>Description</u> | <u>Estimated Lives</u> |
|-----------------------------------|------------------------|
| Buildings | 10 - 45 years |
| Improvements Other than Buildings | 10 - 45 years |
| Vehicles | 6 - 20 years |
| Machinery and Equipment | 1 - 20 years |
| Furniture and Fixtures | 5 - 20 years |
| Infrastructure | 25 - 50 years |

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

J. Interfund Balances

On fund financial statements, outstanding interfund loans and unpaid amounts for interfund services are reported as "interfund receivables/payables." Interfund loans which do not represent available expendable resources are offset by a fund balance reserve account. Interfund balance amounts are eliminated in the statement of net assets.

City of Garfield Heights, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2007

K. Compensated Absences

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

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

L. Accrued and Long-term Obligations

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

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

M. Fund Balance Reserves

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

N. Net Assets

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowing used for the acquisition, construction or improvement of those assets. Net assets are reported as restricted when there are limitations imposed on their use either through constitutional provisions or enabling legislation or through external restrictions imposed by creditors, grantors or laws or regulations of other governments. The government-wide statement of net assets reports \$5,051,027 of restricted net assets, none of which is restricted by enabling legislation. Net assets restricted for other purposes include community development and street maintenance.

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

City of Garfield Heights, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2007

O. Internal Activity

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

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

P. Bond Issuance Costs

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

Q. Bond Premium

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

R. Gain/Loss on Refunding

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

S. Extraordinary and Special Items

Extraordinary items are transactions or events that are both unusual in nature and infrequent in occurrence. Special items are transactions or events that are within the control of the City Administration and that are either unusual in nature or infrequent in occurrence.

T. Estimates

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

City of Garfield Heights, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2007

Note 3 - Change in Accounting Principles and Restatement of Prior Year Balances

A. Change in Accounting Principles

For 2007, the City has implemented Governmental Accounting Standards Board (GASB) Statement No. 45, "Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions", GASB Statement No. 48, "Sales and Pledges of Receivables and Future Revenues and Intra-Entity Transfers of Assets and Future Revenues", and GASB Statement No. 50, "Pension Disclosures".

GASB Statement No. 45 improves the relevance and usefulness of financial reporting by requiring systematic, accrual-basis measurement and recognition of OPEB costs over a period that approximates employees' years of service and providing information about actuarial accrued liabilities associated with OPEB and whether and to what extent progress is being made in funding the plan. An OPEB liability at transition was determined in accordance with this Statement for both the OPERS and OP&F postemployment healthcare plans in the amount of \$82,407 and \$144,428, respectively, which are the same as the previously reported liabilities.

GASB Statement No. 48 addresses how to account for the exchange of an interest in expected cash flows from collecting specific receivables or specific future revenues for immediate cash payments. The statement established criteria used to determine whether the transaction should be recorded as revenue or as a liability (a sale or a collateralized borrowing). The implementation of this statement did not result in any change to the financial statements.

GASB Statement No. 50 requires employers contributing to defined pension plans to include the legal or contractual maximum contribution rates in the notes to the financial statements. The implementation of this statement did not result in any change to the financial statements.

B. Restatement of Fund Balances

During 2007, it was determined that cash and deferred revenue were overstated. This restatement had the following effect on fund balances.

| | General | Bond Retirement | Other Governmental Funds | Total Governmental Funds |
|--|----------------------|--------------------|--------------------------------|--------------------------------|
| Fund Balances, December 31, 2006 | (\$1,801,286) | \$280,939 | (\$293,805) | (\$1,814,152) |
| Cash | (3,857) | 0 | (826) | (4,683) |
| Deferred Revenue | 57,064 | (51,564) | 66,692 | 72,192 |
| Adjusted Fund Balances, December 31, 2006 | <u>(\$1,748,079)</u> | <u>\$229,375</u> | <u>(\$227,939)</u> | <u>(\$1,746,643)</u> |

City of Garfield Heights, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2007

During 2007, it was determined that cash, deferred revenue and workers' compensation due in one year and due in more than one year were overstated. These adjustments had the following effect on net assets at December 31, 2006.

| | Governmental Activities |
|--|----------------------------|
| Net Assets, December 31, 2006 | \$4,074,496 |
| Cash | (56,247) |
| Deferred Revenue | 115,456 |
| Workers' Compensation | 229,919 |
| Adjusted Net Assets, December 31, 2006 | \$4,363,624 |

Note 4 - Budgetary Basis of Accounting

While reporting financial position, results of operations, and changes in fund balances on the basis of generally accepted accounting principles (GAAP basis), the budgetary basis as provided by law is based upon accounting for transactions on a basis of cash receipts, disbursements and encumbrances. The Statement of Revenues, Expenditures, and Changes in Fund Balance - Budget (Non-GAAP Basis) and Actual are presented in the basic financial statements for the general fund. The major differences between the budget basis and the GAAP basis (generally accepted accounting principles) are:

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

City of Garfield Heights, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2007

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

| Net Change in Fund Balance | |
|---|---------------------------|
| GAAP Basis | (\$1,455,684) |
| Net Adjustment for Revenue Accruals | (304,670) |
| Beginning Unrecorded Cash | 105,304 |
| Ending Unrecorded Cash | 111,683 |
| Net Adjustment for Expenditure Accruals | 1,363,269 |
| Encumbrances | <u>(316,490)</u> |
| Budget Basis | <u><u>(\$496,588)</u></u> |

Note 5 - Accountability and Compliance

A. Accountability

The following funds had deficit fund balances as of December 31, 2007:

| | |
|---|-------------|
| General Fund | \$3,203,763 |
| Special Revenue Funds | |
| Police Pension | 210,468 |
| Fire Pension | 195,851 |
| Recreation | 269,734 |
| Street Construction, Maintenance and Repair | 844,888 |
| Federal Nutrition | 764,660 |
| Community Development | 43,851 |
| Capital Projects Fund | |
| Permanent Improvement | 765,484 |

The general fund concluded 2007 with a deficit fund balance of \$3,203,763. The City has experienced a financial shortfall which has resulted in deficit spending in the general fund. To alleviate the financial shortfall, the City has developed a strategy to stabilize its cash shortfall. See Note 18 for further information.

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

B. Compliance

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

City of Garfield Heights, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2007

| Fund | Appropriations Plus Prior Year Encumbrances | Expenditures Plus Encumbrances | Excess |
|------------------------------------|---|--------------------------------------|-----------|
| <i>General Fund</i> | | | |
| General Government | | | |
| Building Standards and Maintenance | | | |
| Personal Services | | | |
| Dues and Subscriptions | \$1,230 | \$2,921 | (1,691) |
| Materials and Supplies | | | |
| Office Supplies | 4,005 | 6,527 | (2,522) |
| Legislative | | | |
| Personal Services | | | |
| Training and Education | 0 | 421 | (421) |
| Finance | | | |
| Materials and Supplies | | | |
| Office Supplies | 3,572 | 4,345 | (773) |
| Legal Administration | | | |
| Personal Services | | | |
| Training and Education | 1,200 | 4,072 | (2,872) |
| Dues and Subscriptions | 2,000 | 2,967 | (967) |
| Court | | | |
| Personal Services | | | |
| Hospitalization and Life Insurance | 250,000 | 446,464 | (196,464) |
| Dues and Subscriptions | 2,550 | 4,016 | (1,466) |
| Contractual Services | | | |
| Special Services | 35,430 | 66,215 | (30,785) |
| Materials and Supplies | | | |
| Operating Supplies | 54,254 | 69,129 | (14,875) |
| Land and Buildings | | | |
| Personal Services | | | |
| Hospitalization and Life Insurance | 112,000 | 125,549 | (13,549) |
| Uniform/Clothing | 4,500 | 5,477 | (977) |
| Contractual Services | | | |
| Telephone | 77,000 | 95,492 | (18,492) |
| Materials and Supplies | | | |
| Office Supplies | 0 | 2,037 | (2,037) |
| Operating Supplies | 161,051 | 195,271 | (34,220) |
| Civil Service Commission | | | |
| Contractual Services | | | |
| Special Services | 10,000 | 12,865 | (2,865) |
| Miscellaneous | | | |
| Personal Services | | | |
| Unemployment Compensation | 4,000 | 7,015 | (3,015) |
| Workers Compensation | 400,000 | 508,050 | (108,050) |
| Office Supplies | 5,346 | 7,185 | (1,839) |
| Other | | | |
| Employee Bonds | 0 | 616 | (616) |
| Refunds and Reimbursements | 2,530 | 5,358 | (2,828) |

City of Garfield Heights, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2007

| Fund | Appropriations Plus Prior Year Encumbrances | Expenditures Plus Encumbrances | Excess |
|--|---|--------------------------------------|----------|
| General Fund (continued) | | | |
| Security of Persons and Property | | | |
| Police Department-General Law Enforcement | | | |
| Personal Services | | | |
| Training and Education | \$10,640 | \$16,365 | (5,725) |
| Materials and Supplies | | | |
| Office Supplies | 5,790 | 9,815 | (4,025) |
| Police Department-Correctional Institution | | | |
| Materials and Supplies | | | |
| Operating Supplies | 28,511 | 38,775 | (10,264) |
| Public Health and Welfare | | | |
| Animal Control | | | |
| Contractual Services | | | |
| Special Services | 1,255 | 3,115 | (1,860) |
| Materials and Supplies | | | |
| Operating Supplies | 2,940 | 4,455 | (1,515) |
| Community Environment | | | |
| Planning and Zoning | | | |
| Contractual Services | | | |
| Advertising/Printing | 0 | 64 | (64) |
| Economic Development | | | |
| Contractual Services | | | |
| Special Services | 2,575 | 2,978 | (403) |
| Advertising/Printing | 690 | 1,187 | (497) |
| Materials and Supplies | | | |
| Office Supplies | 18 | 110 | (92) |
| Permanent Improvements Fund | | | |
| Capital Outlay | | | |
| Contractual Services | | | |
| Special Services | 193,100 | 222,976 | (29,876) |
| Recreation Fund | | | |
| Leisure Time Activities | | | |
| Recreation Board | | | |
| Personal Services | | | |
| Training and Education | 0 | 189 | (189) |
| Other | | | |
| Special Services | 0 | 2,400 | (2,400) |
| Administration | | | |
| Personal Services | | | |
| Training and Education | 0 | 600 | (600) |
| Workers Compensation | 20,500 | 26,604 | (6,104) |
| Contractual Services | | | |
| Special Services | 12,761 | 15,137 | (2,376) |
| Materials and Supplies | | | |
| Office Supplies | 2,506 | 3,284 | (778) |

City of Garfield Heights, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2007

| Fund | Appropriations Plus Prior Year Encumbrances | Expenditures Plus Encumbrances | Excess |
|--|---|--------------------------------------|----------|
| <i>Recreation Fund (continued)</i> | | | |
| Swim, Golf, Tennis | | | |
| Contractual Services | | | |
| Special Services | \$300 | \$490 | (\$190) |
| Materials and Supplies | | | |
| Operating Supplies | 13,000 | 15,662 | (2,662) |
| Skating | | | |
| Contractual Services | | | |
| Special Services | 25,888 | 35,840 | (9,952) |
| Other | | | |
| Refunds and Reimbursements | 500 | 2,671 | (2,171) |
| Organized Sports | | | |
| Personal Services | | | |
| Salaries and Wages | 23,000 | 29,770 | (6,770) |
| Contractual Services | | | |
| Special Services | 7,930 | 10,464 | (2,534) |
| Other | | | |
| Refunds and Reimbursements | 750 | 899 | (149) |
| Concessions | | | |
| Contractual Services | | | |
| Special Services | 0 | 170 | (170) |
| <i>Street Construction Maintenance and Repair</i> | | | |
| Transportation | | | |
| Traffic Control | | | |
| Materials and Supplies | | | |
| Operating Supplies | 10,000 | 21,318 | (11,318) |
| Street Construction | | | |
| Personal Services | | | |
| Workers Compensation | 32,000 | 40,396 | (8,396) |
| Contractual Services | | | |
| Advertising/Printing | 0 | 5,437 | (5,437) |
| Materials and Supplies | | | |
| Operating Supplies | 60,793 | 119,231 | (58,438) |
| <i>State Highway Improvement Fund</i> | | | |
| Transportation | | | |
| Traffic Control | | | |
| Contractual Services | | | |
| Special Services | 3,500 | 5,200 | (1,700) |
| Street Construction | | | |
| Personal Services | | | |
| Workers Compensation | 1,500 | 1,839 | (339) |
| Materials and Supplies | | | |
| Operating Supplies | 0 | 2,500 | (2,500) |
| <i>City Income Tax Fund</i> | | | |
| General Government | | | |
| Contractual Services | | | |
| Special Services | 306,750 | 361,069 | (54,319) |

City of Garfield Heights, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2007

| Fund | Appropriations Plus Prior Year Encumbrances | Expenditures Plus Encumbrances | Excess |
|--|---|--------------------------------------|-----------|
| <i>Storm and Sanitary Sewer Fund</i> | | | |
| Capital Outlay | | | |
| Personal Services | | | |
| Workers Compensation | \$8,500 | \$10,544 | (\$2,044) |
| <i>Federal Nutrition Budget Program Fund</i> | | | |
| Public Health and Welfare | | | |
| Personal Services | | | |
| Workers Compensation | 7,000 | 8,705 | (1,705) |
| Other | | | |
| Refund and Reimbursements | 0 | 182 | (182) |
| <i>Community Development Fund</i> | | | |
| Community Environment | | | |
| Contractual Services | | | |
| Special Services | 0 | 2,985 | (2,985) |
| Equipment Capital Outlay | 0 | 45,290 | (45,290) |
| <i>Law Enforcement Trust Fund</i> | | | |
| Security of Persons and Property | | | |
| Contractual Services | | | |
| Special Services | 1,000 | 8,796 | (7,796) |
| <i>Municipal Court Probation Services Fund</i> | | | |
| General Government | | | |
| Personal Services | | | |
| Workers Compensation | 4,000 | 4,904 | (904) |
| Dues and Subscriptions | 0 | 400 | (400) |
| Contractual Services | | | |
| Special Services | 500 | 4,315 | (3,815) |
| Materials and Supplies | | | |
| Office Supplies | 150 | 450 | (300) |
| <i>Municipal Court Capital Improvement Fund</i> | | | |
| Capital Outlay | | | |
| Personal Services | | | |
| Hospitalization and Life Insurance | 9,600 | 18,305 | (8,705) |
| Workers Compensation | 750 | 981 | (231) |
| Materials and Supplies | | | |
| Operating Supplies | 6,345 | 9,183 | (2,838) |
| Capital Outlay | | | |
| Equipment Capital Outlay | 69,670 | 85,508 | (15,838) |
| <i>Revolving Fund</i> | | | |
| General Government | | | |
| Personal Services | | | |
| Salaries and Wages | 275,000 | 313,630 | (38,630) |
| Pensions | 38,087 | 50,523 | (12,436) |
| Workers Compensation | 8,000 | 10,176 | (2,176) |
| Contractual Services | | | |
| Advertising/Printing | 0 | 550 | (550) |

City of Garfield Heights, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2007

| Fund | Appropriations Plus Prior Year Encumbrances | Expenditures Plus Encumbrances | Excess |
|--|---|--------------------------------------|------------|
| <i>Revolving Fund (continued)</i> | | | |
| Materials and Supplies | | | |
| Gasoline | \$193,275 | \$250,714 | (\$57,439) |
| Oil | 6,261 | 10,097 | (3,836) |
| Grease | 500 | 1,189 | (689) |
| Batteries | 4,065 | 6,776 | (2,711) |
| Tires and Tubes | 30,001 | 40,770 | (10,769) |
| Miscellaneous Repair Parts | 123,886 | 137,319 | (13,433) |

The City had negative cash fund balances in the following funds indicating that revenue from other sources were used to pay obligations of these funds contrary to Ohio Revised Code Section 5705.10(H):

| | |
|---|-------------|
| <i>General Fund</i> | \$1,495,171 |
| <i>Special Revenue Funds</i> | |
| Recreation | 106,893 |
| Street Construction, Maintenance and Repair | 465,318 |
| Federal Nutrition | 731,365 |
| Community Development | 43,851 |
| <i>Debt Service Fund</i> | |
| Bond Retirement | 8,453 |
| <i>Capital Projects Fund</i> | |
| Permanent Improvement | 235,172 |

The following funds had appropriations which were in excess of estimated resources as reported on the Official Certificate of Estimated Resources at December 31, 2007.

| Fund | Estimated Resources | Appropriations | Variance |
|--------------------------------------|------------------------|----------------|-------------|
| Federal Nutrition Budget Fund | \$24,654 | 476,630 | (\$451,976) |
| Equipment Acquisition Note 2007 Fund | 0 | 1,135,000 | (1,135,000) |
| Recreation Center Note 2007 Fund | 0 | 1,050,000 | (1,050,000) |
| Street Improvement Note 2007 Fund | 0 | 1,225,000 | (1,225,000) |
| Revolving Equipment Fund | 759,476 | 1,124,456 | (364,980) |

The City does not record encumbrances during the year contrary to Ohio Revised Code Section 5705.41(D)(1).

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

Note 6 - Deposits and Investments

Monies held by the City are classified by State statute into three categories.

City of Garfield Heights, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2007

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

Inactive deposits are public deposits that Council has identified as not required for use within the current five year period of designation of depositories. Inactive deposits must either be evidenced by certificates of deposit maturing not later than the end of the current period of designation of depositories, or by savings or deposit accounts including, but not limited to, passbook accounts.

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

Interim monies held by the City can be deposited or invested in the following securities:

1. United States Treasury bills, bonds, notes or any other obligation or security issued by the United States Treasury, or any other obligation guaranteed as to principal and interest by the United States;
2. Bonds, notes, debentures, or any other obligations or securities issued by any federal government agency or instrumentality, including, but not limited to, Federal National Mortgage Association, Federal Home Loan Bank, Federal Farm Credit Bank, Federal Home Loan Mortgage Corporation, Government National Mortgage Association, and Student Loan Marketing Association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;
3. Written repurchase agreements in securities listed above;
4. Bonds and other obligations of the State of Ohio;
5. Time certificates of deposit or savings or deposit accounts including, but not limited to, passbook accounts;
6. No-load money market mutual funds consisting exclusively of obligations described in division (1) or (2);
7. The State Treasurer's investment pool (STAROhio); and
8. Commercial paper and bankers acceptances if training requirements have been met.

The City may also invest any monies not required to be used for a specific period of six months or more in the following:

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

City of Garfield Heights, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2007

3. Obligation of the City.

Investments in stripped principal or interest obligations, reverse repurchase agreements and derivatives are prohibited. The issuance of taxable notes for the purpose of arbitrage, the use of leverage and short selling are also prohibited. Investments may only be made through specified dealers and institutions.

Custodial credit risk for deposits is the risk that in the event of bank failure, the City will not be able to recover deposits or collateral securities that are in possession of an outside party. At year end, \$2,709,916 of the City's bank balance of \$3,009,916 was uninsured and uncollateralized. Although the securities were held by the pledging financial institutions' trust department and all statutory requirements for the deposit of money had been followed, noncompliance with Federal requirements could potentially subject the City to a successful claim by the Federal Deposit Insurance Corporation.

The City has no deposit policy for custodial risk beyond the requirements of State statute. Ohio law requires that deposits be either insured or be protected by eligible securities pledged to and deposited either with the City or a qualified trustee by the financial institution as security for repayment, or by a collateral pool of eligible securities deposited with a qualified trustee and pledged to secure the repayment of all public monies deposited in the financial institution whose market value at all times shall be at least one hundred five percent of the deposits being secured.

Note 7 - Contingencies

A. Grants

The City receives financial assistance from federal and state agencies in the form of grants. The disbursements of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and is subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the general fund or other applicable funds. However, in the opinion of management, any such disallowed claims will not have a material effect on the overall financial position of the City at December 31, 2007.

B. Litigation

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

Note 8 – Receivables

Receivables at December 31, 2007 consisted primarily of taxes, payments in lieu of taxes, intergovernmental and interfund receivables and special assessments.

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

Special assessments expected to be collected in more than one year amount to \$975,247 in the bond retirement fund. At December 31, 2007 the amount of delinquent special assessments was \$113,133.

City of Garfield Heights, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2007

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 2007 for real and public utility property taxes represents collections of the 2006 taxes. Property tax payments received during 2007 for tangible personal property (other than public utility property) is for 2007 taxes.

2007 real property taxes are levied after October 1, 2007 on the assessed value as of January 1, 2007, the lien date. Assessed values are established by State law at 35 percent of appraised market value. 2007 real property taxes are collected in and intended to finance 2008.

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

Public utility tangible personal property currently is assessed at varying percentages of true value; public utility real property is assessed at 35 percent of true value. 2007 public utility property taxes became a lien December 31, 2006, are levied after October 1, 2007, and are collected in 2008 with real property taxes.

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

The full tax rate for all City operations for the year ended December 31, 2007 was \$21.90 per \$1,000 of assessed value. The assessed values of real and tangible personal property upon which 2007 property tax receipts were based are as follows:

| | |
|----------------------------|---------------|
| Real Estate | |
| Residential/Agricultural | \$391,283,770 |
| Other Real Estate | 103,536,410 |
| Tangible Personal Property | |
| Public Utility | 19,324,250 |
| General | 20,274,506 |
| Total | \$534,418,936 |

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, 2007 and for which there is an enforceable legal claim. In the general fund; street lighting, police pension, fire pension and recreation special revenue funds; general obligation bond debt service fund and the permanent improvement capital projects fund, the entire receivable has been offset by deferred revenue since the current taxes were not levied to finance operations and the collection of delinquent taxes during the available period is not subject to reasonable estimation. On a full accrual basis, delinquent property taxes have been recorded as revenue while the remainder of the receivable is deferred.

City of Garfield Heights, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2007

B. Income Taxes

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

C. Intergovernmental Receivables

A summary of the principal items of intergovernmental receivables follows:

| | <u>Amount</u> |
|--|---------------------------|
| Local Government | \$842,934 |
| Homestead and Rollback | 571,757 |
| Gas Tax | 559,095 |
| Grants | 302,163 |
| Motor Vehicle License | 90,916 |
| Estate Tax | 45,417 |
| Cuyahoga County | 41,261 |
| City of Bedford | 13,954 |
| State of Ohio | <u>9,902</u> |
| <i>Total Intergovernmental Receivables</i> | <u><u>\$2,477,399</u></u> |

D. Payments in Lieu of Taxes

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

City of Garfield Heights, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2007

Note 9 - Capital Assets

Capital asset activity for the year ended December 31, 2007, was as follows:

| | Balance 12/31/06 | Additions | Deductions | Balance 12/31/07 |
|--|---------------------|----------------------|--------------------|---------------------|
| Governmental Activities | | | | |
| <i>Capital Assets, Not Being Depreciated</i> | | | | |
| Land | \$1,565,425 | \$15,000 | (\$39,998) | \$1,540,427 |
| Construction in Progress | 385,116 | 133,002 | 0 | 518,118 |
| <i>Total Capital Assets, Not Being Depreciated</i> | <u>1,950,541</u> | <u>148,002</u> | <u>(39,998)</u> | <u>2,058,545</u> |
| <i>Capital Assets, Being Depreciated</i> | | | | |
| Buildings | 15,820,113 | 0 | 0 | 15,820,113 |
| Improvements Other than Buildings | 4,456,578 | 0 | 0 | 4,456,578 |
| Vehicles | 5,154,115 | 517,367 | (518,682) | 5,152,800 |
| Machinery and Equipment | 4,593,770 | 195,909 | (93,978) | 4,695,701 |
| Furniture and Fixtures | 679,758 | 2,059 | 0 | 681,817 |
| Infrastructure | | | | |
| Roads | 24,906,863 | 0 | 0 | 24,906,863 |
| Sanitary Sewers | 3,578,655 | 0 | 0 | 3,578,655 |
| Storm Sewers | 1,661,471 | 0 | 0 | 1,661,471 |
| Water Supply Lines | 661,641 | 0 | 0 | 661,641 |
| <i>Total Capital Assets, Being Depreciated</i> | <u>61,512,964</u> | <u>715,335</u> | <u>(612,660)</u> | <u>61,615,639</u> |
| <i>Less Accumulated Depreciation</i> | | | | |
| Buildings | (4,607,909) | (342,664) | 0 | (4,950,573) |
| Improvements Other than Buildings | (1,783,195) | (133,180) | 0 | (1,916,375) |
| Vehicles | (2,817,671) | (401,330) | 459,370 | (2,759,631) |
| Machinery and Equipment | (2,988,525) | (282,201) | 89,856 | (3,180,870) |
| Furniture and Fixtures | (456,032) | (29,950) | 0 | (485,982) |
| Infrastructure | | | | |
| Roads | (10,177,553) | (996,275) | 0 | (11,173,828) |
| Sanitary Sewers | (780,226) | (71,573) | 0 | (851,799) |
| Storm Sewers | (333,820) | (33,229) | 0 | (367,049) |
| Water Supply Lines | (121,484) | (13,233) | 0 | (134,717) |
| <i>Total Accumulated Depreciation</i> | <u>(24,066,415)</u> | <u>(2,303,635) *</u> | <u>549,226</u> | <u>(25,820,824)</u> |
| <i>Total Capital Assets being Depreciated, Net</i> | <u>37,446,549</u> | <u>(1,588,300)</u> | <u>(63,434)</u> | <u>35,794,815</u> |
| <i>Capital Assets, Net</i> | <u>\$39,397,090</u> | <u>(\$1,440,298)</u> | <u>(\$103,432)</u> | <u>\$37,853,360</u> |

City of Garfield Heights, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2007

* Depreciation expense was charged to governmental functions as follows:

| | |
|----------------------------------|-------------|
| General Government | \$475,921 |
| Security of Persons and Property | 388,819 |
| Public Health Services | 54,315 |
| Transportation | 1,111,432 |
| Community Development | 99 |
| Basic Utility Services | 140,101 |
| Leisure Time Activities | 132,948 |
| | \$2,303,635 |
| Total Depreciation Expense | \$2,303,635 |

Note 10 - Compensated Absences

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

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

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

Note 11 – Interfund Transfers and Balances

A. Interfund Transfers

| Transfer To | Transfer From | | Totals |
|--------------------------|---------------|------------------------|-------------|
| | General | Various Improvement | |
| Bond Retirement | \$0 | \$1,115,000 | \$1,115,000 |
| Other Governmental Funds | 1,646,077 | 0 | 1,646,077 |
| Totals | \$1,646,077 | \$1,115,000 | \$2,761,077 |

City of Garfield Heights, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2007

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

During 2007 the general fund transferred out \$1,646,077 to various other governmental funds. Of this total \$676,260 was transferred to the police pension and \$585,174 to the fire pension special revenue funds. These two funds were set up as special revenue funds in past years in order to correctly identify a small percentage of the property tax revenues that were earmarked by the voters for the payment of pension amounts for the City's police and fire safety officers. After these tax revenues are received from the County through the property tax distributions, any remaining balance needed to pay the pension payments is transferred to these funds from the general fund. The remaining general fund transfers of \$52,500 to the recreation, \$25,000 to the street construction, maintenance and repair and \$307,143 to the federal nutrition special revenue funds were all necessitated because those funds did not generate enough revenue to support the activities of the particular funds.

The various improvement capital projects fund transferred \$1,115,000 to the bond retirement debt service fund to pay interest and fiscal charges on the bond issue.

B. Interfund Balances

| Interfund Payable | Interfund Receivable | | | | | Total |
|---|----------------------|---------------------|-----------------------|-------------------|--------------------|-------------|
| | Storm and Sewer | Various Improvement | Equipment Acquisition | Recreation Center | Street Improvement | |
| General | \$0 | \$0 | \$0 | \$222,998 | \$991,613 | \$1,214,611 |
| Other Governmental Funds: | | | | | | |
| Recreation | 0 | 0 | 0 | 106,893 | 0 | 106,893 |
| Street Construction, Maintenance and Repair | 0 | 0 | 375,881 | 163,788 | 0 | 539,669 |
| Federal Nutrition | 21,168 | 236,876 | 404,031 | 0 | 0 | 662,075 |
| Community Development | 43,851 | 0 | 0 | 0 | 0 | 43,851 |
| Permanent Improvement | 160,821 | 0 | 0 | 0 | 0 | 160,821 |
| Totals | \$225,840 | \$236,876 | \$779,912 | \$493,679 | \$991,613 | \$2,727,920 |

The interfund receivables and payables were the result of deficit cash balances and due to the timing of the receipt of grant monies at year end.

City of Garfield Heights, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2007

Note 12 - Long-Term Obligations

Changes in long-term obligations of the City during the year ended December 31, 2007 were as follows:

| | Outstanding 12/31/2006 | Additions | Reductions | Outstanding 12/31/2007 | Amounts Due in One Year |
|---|---------------------------|--------------------|----------------------|---------------------------|-------------------------------|
| Governmental Activities | | | | | |
| General Obligation Bonds | | | | | |
| 1998 3.65%-4.6% \$2,645,000 | | | | | |
| Justice Center Refunding | \$940,000 | \$0 | (\$300,000) | \$640,000 | \$315,000 |
| 1998 3.65%-4.6% \$3,775,000 | | | | | |
| Civic Center Refunding | 2,675,000 | 0 | (220,000) | 2,455,000 | 230,000 |
| 1998 3.6%-4.6% \$4,460,000 | | | | | |
| Various Improvements | 3,110,000 | 0 | (200,000) | 2,910,000 | 210,000 |
| 2002 1.09%-5.55% \$7,300,000 | | | | | |
| Various Improvements | 6,810,000 | 0 | (195,000) | 6,615,000 | 205,000 |
| 2004 4.75% \$9,900,000 | | | | | |
| Various Improvements | 8,706,127 | 0 | (350,000) | 8,356,127 | 368,000 |
| Transportation-Antenucci proceeds | 1,193,873 | 0 | 0 | 1,193,873 | 0 |
| Total 2004 Bonds | 9,900,000 | 0 | (350,000) | 9,550,000 | 368,000 |
| 2006 4.00% | | | | | |
| Various Purpose Improvement Refunding Bonds | 1,885,000 | 0 | (200,000) | 1,685,000 | 215,000 |
| Unamortized Amount on Refunding (Gain) | 3,934 | 0 | (252) | 3,682 | 0 |
| Total Various Purpose Improvement Refunding Bonds | 1,888,934 | 0 | (200,252) | 1,688,682 | 215,000 |
| 2006 4.00% | | | | | |
| Various Purpose Refunding Bonds | 2,307,466 | 0 | (195,917) | 2,111,549 | 206,796 |
| Unamortized Amount on Refunding (Loss) | (69,657) | 0 | 4,392 | (65,265) | 0 |
| Total Various Purpose Refunding Bonds | 2,237,809 | 0 | (191,525) | 2,046,284 | 206,796 |
| 2006 4.00% | | | | | |
| Street Improvement | 2,790,000 | 0 | 0 | 2,790,000 | 130,000 |
| Unamortized Premium | 137,033 | 0 | (8,568) | 128,465 | 0 |
| Total Street Improvement | 2,927,033 | 0 | (8,568) | 2,918,465 | 130,000 |
| Total General Obligation Bonds | 30,488,776 | 0 | (1,665,345) | 28,823,431 | 1,879,796 |
| Special Assessment Bonds | | | | | |
| 2006 4.00% | | | | | |
| Various Purpose Improvement Refunding Bonds | 325,000 | 0 | (35,000) | 290,000 | 35,000 |
| 2006 4.00% | | | | | |
| Various Purpose Refunding Bonds | 872,534 | 0 | (74,083) | 798,451 | 78,204 |
| Total Special Assessment Bonds | 1,197,534 | 0 | (109,083) | 1,088,451 | 113,204 |
| Other Governmental Activities | | | | | |
| Notes Payable | | | | | |
| 2006 Various Improvement; 4.47% | 2,000,000 | 0 | (2,000,000) | 0 | 0 |
| 2007 Equipment Acquisition; 4.28% | 0 | 1,135,000 | 0 | 1,135,000 | 0 |
| 2007 Street Improvement; 3.97% | 0 | 1,225,000 | 0 | 1,225,000 | 0 |
| 2007 Recreation Center Improvement; 4.28% | 0 | 1,050,000 | 0 | 1,050,000 | 0 |
| 2007 Various Purpose; 3.79% | 0 | 2,000,000 | 0 | 2,000,000 | 0 |
| Total Notes Payable | 2,000,000 | 5,410,000 | (2,000,000) | 5,410,000 | 0 |
| Compensated Absences Payable | 4,940,042 | 347,254 | (94,571) | 5,192,725 | 247,884 |
| Claims Payable | 1,065,114 | 194,569 | (632,902) | 626,781 | 297,563 |
| Police and Fire Pension Liability | 658,292 | 0 | (12,243) | 646,049 | 12,771 |
| Capital Leases Payable | 306,382 | 0 | (306,382) | 0 | 0 |
| Total Other Governmental Activities | 8,969,830 | 5,951,823 | (3,046,098) | 11,875,555 | 558,218 |
| Total Governmental Activities | \$40,656,140 | \$5,951,823 | (\$4,820,526) | \$41,787,437 | \$2,551,218 |

City of Garfield Heights, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2007

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

The \$1,135,000 notes and the \$1,050,000 notes were issued on June 28, 2007 and mature on June 27, 2008. The \$1,225,000 notes were issued on July 29, 2007 and mature on September 26, 2008. The \$2,000,000 notes were issued on November 15, 2007 and mature on November 14, 2008. The notes are backed by the full faith of City of Garfield Heights.

The City's overall legal debt margin was \$18,903,258 at December 31, 2007. Principal and interest requirements to retire long-term obligations outstanding at December 31, 2007 are as follows:

| | General Obligation Bonds | | Special Assessment Bonds | | Police and Fire Pension | |
|---------------|-----------------------------|---------------------|-----------------------------|------------------|----------------------------|------------------|
| | Principal | Interest | Principal | Interest | Principal | Interest |
| 2008 | \$1,879,796 | \$1,313,690 | \$113,204 | \$50,035 | \$12,771 | \$27,323 |
| 2009 | 1,966,052 | 1,230,953 | 115,948 | 44,789 | 13,320 | 26,774 |
| 2010 | 1,702,308 | 1,147,268 | 123,692 | 39,434 | 13,893 | 26,201 |
| 2011 | 1,775,564 | 1,073,984 | 126,436 | 33,566 | 14,489 | 25,605 |
| 2012 | 1,858,820 | 995,533 | 134,180 | 27,589 | 15,111 | 24,983 |
| 2013-2017 | 9,094,009 | 3,685,863 | 474,991 | 46,233 | 85,867 | 114,603 |
| 2018-2022 | 6,591,000 | 1,817,350 | 0 | 0 | 105,960 | 94,510 |
| 2023-2027 | 3,889,000 | 434,178 | 0 | 0 | 130,758 | 69,712 |
| 2028-2032 | 0 | 0 | 0 | 0 | 161,356 | 39,114 |
| 2033-2035 | 0 | 0 | 0 | 0 | 92,524 | 5,906 |
| Totals | \$28,756,549 | \$11,698,819 | \$1,088,451 | \$241,646 | \$646,049 | \$454,731 |

Note 13 – Note Debt

A summary of note transactions for the year ended December 31, 2007 follows:

| | Balance 12/31/06 | Additions | Deletions | Balance 12/31/07 |
|----------------------------------|---------------------|-----------|-----------|---------------------|
| Various Improvements Fund | | | | |
| 2006 4.47% Various Purpose | \$440,000 | \$0 | \$440,000 | \$0 |

The bond anticipation note is backed by the full faith and credit of the City of Garfield Heights and matures within one year. The note liability is reflected in the fund which received the proceeds.

City of Garfield Heights, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2007

Note 14 - Jointly Governed Organizations

Northeast Ohio Public Energy Council The City is a member of The Northeast Ohio Public Energy Council (NOPEC). NOPEC is a regional council of governments formed under Chapter 167 of the Ohio Revised Code. NOPEC was formed to serve as a vehicle for communities wishing to proceed jointly with an aggregation program for the purchase of electricity. NOPEC is currently comprised of 126 communities who have been authorized by ballot to purchase electricity on behalf of their citizens. The intent of NOPEC is to provide electricity at the lowest possible rates while at the same time insuring stability in prices by entering into long-term contracts with suppliers to provide electricity to the citizens of its member communities.

NOPEC is governed by a General Assembly made up of one representative from each member community. The representatives from each county then elect one person to serve on the eight-member NOPEC Board of Directors. The Board oversees and manages the operation of the aggregation program. The degree of control exercised by any participating government is limited to its representation in the General Assembly and on the Board. The City of Garfield Heights did not contribute to NOPEC during 2007. Financial information can be obtained by contacting Joseph Migliorini, the Board Chairman, at 175 South Main Street, Akron, Ohio 44308 or at the website www.nopecinfo.org.

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

The Council is governed by an Assembly made up of one representative from each member community. The representatives then elect the Governing Board made up of a Chair, Vice Chair and other members elected in annual elections. The Board oversees and manages the Council. The degree of control exercised by any participating government is limited to its representation in the Assembly and on the Board. During 2007, the City of Garfield Heights contributed \$3,000 to the First Suburbs Consortium. Financial information can be obtained by contacting First Suburbs Consortium of Northeast Ohio Council of Governments, 40 Severance Circle, Cleveland Heights, Ohio 44118.

Note 15 - Defined Benefit Pension Plans

A. Ohio Public Employees Retirement System

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

City of Garfield Heights, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2007

member directed plan. While members in the State and local divisions may participate in all three plans, law enforcement (generally sheriffs, deputy sheriffs and township police) and public safety divisions exist only within the traditional pension plan.

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

Funding Policy – The Ohio Revised Code provides statutory authority for member and employer contributions. For the year ended December 31, 2007, members in state and local classifications contributed 9.5 percent of covered payroll, public safety members contributed 9.75 percent, and law enforcement members contributed 10.1 percent.

The City's contribution rate for 2007 was 13.85 percent, except for those plan members in law enforcement or public safety, for whom the City's contribution was 17.17 percent of covered payroll. For the period January 1 through June 30, a portion of the City's contribution equal to 5 percent of covered payroll was allocated to fund the post-employment health care plan; for the period July 1 through December 31, 2007 this amount was increased to 6 percent. Employer contribution rates are actuarially determined. State statute sets a maximum contribution rate for the City of 14 percent, except for public safety and law enforcement, where the maximum employer contribution rate is 18.1 percent.

The City's required contributions for pension obligations to the traditional and combined plans for the years ended December 31, 2007, 2006, and 2005 were \$572,251, \$639,038, and \$619,692 respectively; 69.97 percent has been contributed for 2007 and 100 percent for 2006 and 2005. Contributions to the member-directed plan for 2007 were \$11,896 made by the City and \$8,160 made by the plan members

B. Ohio Police and Fire Pension Fund

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

Funding Policy - Plan members are required to contribute 10 percent of their annual covered salary to fund pension obligations. The City's contribution was 19.5 percent for police officers and 24 percent for firefighters. Contribution rates are established by State statute. For 2007, a portion of the City's contribution equal to 6.75 percent of covered payroll was allocated to fund the post-employment health care plan. The City's pension contributions to OP&F for police and firefighters were \$565,678 and \$544,773 for the year ended December 31, 2007, \$491,688 and \$479,993 for the year ended December 31, 2006 and \$476,797 and \$462,838 for the year ended December 31, 2005. The full amount has been contributed for 2006 and 2005. 75.67 percent has been contributed for police and 74.16 percent has been contributed for firefighters for 2007.

City of Garfield Heights, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2007

In addition to current contributions, the City pays installments on the accrued liability incurred when the State of Ohio established the statewide pension system for police and fire fighters in 1967. As of December 31, 2007, the unfunded liability of the City was \$646,049 payable in semi-annual payments through the year 2035. This is an accounting liability of the City which will not vary.

Note 16 - Postemployment Benefits

A. Ohio Public Employees Retirement System

Plan Description – OPERS maintains a cost-sharing multiple-employer defined benefit post-employment health care plan for qualifying members of both the traditional and combined pension plans. Members of the member directed plan do not qualify for ancillary benefits, including post-employment health care. The plan includes a medical plan, a prescription drug program and Medicare Part B premium reimbursement.

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

Disclosures for the health care plan are presented separately in the OPERS financial report which may be obtained by writing to OPERS, 277 East Town Street, Columbus, OH 43215-4642 or by calling (614) 222-5601 or 800-222-7377.

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

Employer contribution rates are expressed as a percentage of the covered payroll of active employees. In 2007, local government employers contributed 13.85 percent of covered payroll (17.17 percent for public safety and law enforcement). Each year, the OPERS retirement board determines the portion of the employer contribution rate that will be set aside for funding post-employment health care benefits. The amount of the employer contributions which was allocated to fund post-employment health care was 5.00 percent of covered payroll from January 1 through June 30, 2007 and 6.00 percent from July 1 through December 31, 2007.

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

The City's contributions allocated to fund post-employment health care benefits for the years ended December 31, 2007, 2006, and 2005 were \$376,932, \$267,660 and \$259,557 respectively; 69.97 percent has been contributed for 2007 and 100 percent for 2006 and 2005.

City of Garfield Heights, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2007

On September 9, 2004 the OPERS Retirement Board adopted a Health Care Preservation Plan which was effective January 1, 2007. Member and employer contribution rates increased as of January 1, 2006, January 1, 2007 and January 1, 2008, which allowed additional funds to be allocated to the health care plan.

B. Police and Firemen's Disability and Pension Fund

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

OP&F provides access to post-retirement healthcare coverage for any person who receives or is eligible to receive a monthly service, disability, or survivor benefit or is a spouse or eligible dependent child of such person.

The Ohio Revised Code allows, but does not mandate, OP&F to provide OPEB benefits. Authority for the OP&F Board of Trustees to provide healthcare coverage to eligible participants and to establish and amend benefits is codified in Chapter 742 of the Ohio Revised Code.

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

Funding policy – OP&F's post-employment healthcare plan was established and is administered as an Internal Revenue Code 401(h) account within the defined benefit pension plan, under the authority granted by the Ohio Revised Code to the OP&F Board of Trustees. The Ohio Revised Code sets the contribution rates for participating employers and for plan members to the OP&F. Participating employers are required to contribute to the pension plan at rates expressed as percentages of the payroll of active pension plan members, currently, 19.50 percent and 24.00 percent of covered payroll for police and fire employers, respectively.

The Board of Trustees is authorized to allocate a portion of the total employer contributions made to the pension plan to the 401(h) account as the employer contribution for retiree healthcare benefits. For the year ended December 31, 2007, the employer contribution allocated to the healthcare plan was 6.75 percent of covered payroll. The amount of employer contributions allocated to the healthcare plan each year is subject to the trustees' primary responsibility to ensure that pension benefits are adequately funded and also is limited by the provisions of Section 401(h).

The OP&F Board of Trustees is also authorized to establish requirements for contributions to the healthcare plan by retirees and their eligible dependents, or their surviving beneficiaries. Payment amounts vary depending on the number of covered dependents and the coverage selected. Active members do not make contributions to the OPEB Plan.

The City's contributions to OP&F which were allocated to fund post-employment health care benefits for police and firefighters were \$299,477 and \$213,172 for the year ended December 31, 2007, \$324,305 and \$228,920 for the year ended December 31, 2006, and \$314,603 and \$220,738 for the year ended December 31, 2005. The full amount has been contributed for 2006 and 2005. 75.67 percent has been contributed for police and 74.16 percent has been contributed for firefighters for 2007.

City of Garfield Heights, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2007

Note 17 - 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 2007, the City contracted with Clarendon Insurance Company for various types of insurance as follows:

| Type | Coverage |
|---------------------------------|---|
| Property | \$29,323,643 |
| Inland Marine | 1,471,921 |
| Comprehensive General Liability | 1,000,000 per occurrence 3,000,000 aggregate |
| Police Professional Liability | 1,000,000 per occurrence 1,000,000 aggregate |
| Employment Practices | 1,000,000 per occurrence 1,000,000 aggregate |
| Vehicle Liability | 1,000,000 combined |
| Public Officials Liability | 1,000,000 per occurrence 1,000,000 annual |
| Umbrella Liability | 5,000,000 per occurrence |

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

The City manages employee health benefits on a self-insured basis. The employee health benefit plan provides basic hospital/medical/surgical plans with deductibles of \$100 per person and \$200 per family, with maximum out of pocket expenses, not including the deductibles, of \$500 per individual or family coverage. Medical Mutual of Ohio reviews all claims which are then paid by the City. An excess coverage insurance (stop-loss) policy covers claims in excess of \$125,000 per employee and an aggregate of \$2,857,559 per year. The benefit is paid by the fund that pays the salary for the employee and is based on historical cost information.

A health benefit claims liability of \$460,495 has been accrued in the general fund, recreation, federal nutrition, street maintenance and repair and municipal court probation services special revenue funds and storm and sewer and municipal court improvement services capital projects funds based on an estimate by the third party administrator. The liability reported at December 31, 2007 is based on the requirements of Governmental Accounting Standards Board Statement No. 30, which requires that a liability for unpaid claims costs, including estimates of costs relating to incurred but not reported claims, be reported. The estimate was not affected by incremental claim adjustment expenses and does not include other allocated or unallocated claim adjustment expense.

The City participates in the State Workers' Compensation retrospective rating and payment system. Once the City receives notice of the 2007 claims paid by the Bureau of Workers' Compensation, the City will reimburse the State for claims paid on the City's behalf. The payable is reclassified from claims payable to intergovernmental payable. This plan involves the payment of a minimum premium for administrative services and stop-loss coverage plus the actual claim costs for employees injured in 2007. The minimum premium portion of intergovernmental payable is \$918,534 and the actual claim costs are \$254,108. The maintenance of these benefits is accounted for in the general fund. Claims of \$626,781 have been accrued as a liability at December 31, 2007 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 2006 and 2007 were:

City of Garfield Heights, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2007

| | Balance Beginning of Year | Current Year Claims | Claim Payments | Change in Workers' Compensation Estimate | Balance at End of Year |
|------|------------------------------|------------------------|-------------------|---|---------------------------|
| 2006 | \$1,043,072 | \$3,077,828 | \$1,361,001 | (\$1,315,617) | \$1,444,282 |
| 2007 | 1,444,282 | 3,340,034 | 3,457,677 | (239,363) | \$1,087,276 |

Note 18 – Financial Difficulties

The City has experienced a financial shortfall which has resulted in deficit spending in the general fund and other less significant funds at December 31, 2007. To alleviate the financial shortfall, the City has developed a strategy to stabilize its cash shortfall in the aforementioned funds. In June 2006, the City had entered into an agreement to generate \$1,200,000 in additional revenue for the City. The City passed two pieces of legislation with Clear Channel Communications, Inc. to erect two billboards along Interstate I-480 at \$600,000 each. Although some technical difficulties have precluded the receipt of these funds the City administration is continuing to pursue the collection of these funds in 2008. The City is also pursuing the collection of a \$610,000 reimbursement from Cuyahoga County for a court employee's medical coverage payments. During 2007, to further alleviate some of this deficit situation the City repositioned its Income Tax distribution so that approximately \$690,000 of this revenue went as a direct offset to the deficit balance. During the early part of 2008, the City administration realized that the efforts to date have not run according to plan, and thus the administration has revised these plans to stabilize the financial shortfall the City is experiencing. The administration has scheduled to hold some work sessions with City Council in order to spell out the full impact of the deficit situation and to discuss various options for the reduction and elimination of the deficit. Some of the solutions to be discussed at these meeting will include 1) the reduction of the City's Income Tax Credit to a level of 50 percent instead of 100 percent, which would result in about \$2,000,000 of new revenue in 2008 and about \$3,000,000 in 2009, 2) the elimination of various City services, 3) and the possibility of closing various City departments such as Recreation and Senior Nutrition Programs, which would result in a savings of about \$1,500,000.

Note 19 – Subsequent Events

On June 25, 2008, the City issued \$1,160,000 in notes, with an interest rate of 3.19 percent, for the purpose of paying costs of acquiring and equipping motor vehicles for the City. The notes mature on June 26, 2009.

On June 25, 2008, the City issued \$1,070,000 in notes, with an interest rate of 3.19 percent, for the purpose of renovating, improving and equipping the Recreation Center. The notes mature on June 26, 2009.

On June 25, 2008, the City issued \$378,000 in notes, with an interest rate of 3.19 percent, for various purposes in the City. The notes mature on June 26, 2009.

On September 26, 2008, the City issued \$1,100,000 in notes, with an interest rate of 3.29 percent, for the purpose of street improvements and repaving. The notes mature on September 25, 2009.

On November 14, 2008, the City issued \$1,800,000 in notes, with an interest rate of 3.68 percent, for various purposes in the City. The notes mature on June 14, 2009.



Mary Taylor, CPA

Auditor of State

INDEPENDENT ACCOUNTANTS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS REQUIRED BY *GOVERNMENT AUDITING STANDARDS*

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

To the Members of Council:

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the City of Garfield Heights, Cuyahoga County, Ohio, (the City) as of and for the years ended December 31, 2008 and December 31, 2007, which collectively comprise the City's basic financial statements and have issued our report thereon dated June 16, 2010, wherein we noted the City experienced certain financial difficulties during fiscal years 2008 and 2007. In addition, we noted the City restated the January 1, 2007 General Fund, Bond Retirement Fund, and Remaining Fund Information fund balances due to an overstatement of cash and deferred revenue and the January 1, 2007 Governmental Activities net assets due to an overstatement of cash and deferred revenue. The Auditor of State has determined a fiscal emergency exists for fiscal year 2008, and a financial planning and supervision commission has assumed certain management responsibilities for the duration of this emergency pursuant to Chapter 118 of the Ohio Rev. Code. The City's financial difficulties have resulted in deficit fund balances in the General Fund of \$1,477,864, and other funds of \$1,358,635 that raise substantial doubt about the City's ability to continue as a going concern. The City's financial difficulties have resulted in a deficit fund balance in the General Fund of \$3,203,763 for fiscal year 2007. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the Comptroller General of the United States' *Government Auditing Standards*.

Internal Control Over Financial Reporting

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

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

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

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

We also noted certain internal control matters that we reported to the City's management in a separate letter dated June 16, 2010.

Compliance and Other Matters

As part of reasonably assuring whether the City's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could directly and materially affect the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and accordingly, we do not express an opinion. The results of our tests disclosed instances of noncompliance or other matters that we must report under *Government Auditing Standards* which are described in the accompanying schedule of findings as items 2008-001 through 2008-004.

We also noted certain noncompliance or other matters not requiring inclusion in this report that we reported to the City's management in a separate letter dated June 16, 2010.

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

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



Mary Taylor, CPA
Auditor of State

June 16, 2010

**CITY OF GARFIELD HEIGHTS
CUYAHOGA COUNTY**

**SCHEDULE OF FINDINGS
DECEMBER 31, 2008 AND DECEMBER 31, 2007**

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

FINDING NUMBER 2008-001

Expenditures Plus Encumbrances vs. Appropriations – Noncompliance Finding

Ohio Rev. Code Section 5705.41(B) prohibits a subdivision or taxing unit from making expenditures unless it has been properly appropriated. Budgetary expenditures (that is, disbursements and encumbrances) as enacted by the Council may not exceed appropriations at the legal level for all funds. The City's legal level of control is fund, function, and detail object level. The following funds had expenditures in excess of appropriations and expenditures plus encumbrances in excess of appropriations at the legal level of control at December 31, 2008 and December 31, 2007.

| Fund/Function/Detail Object | Appropriations Plus PY Encumbrances | Expenditures Plus Encumbrances | Excess |
|---|---|--------------------------------------|----------|
| At December 31, 2008 | | | |
| General Fund | | | |
| Security of Persons and Property | | | |
| Police Department – General Law Enforcement | | | |
| Personal Services | | | |
| Training & Education | 13,265 | 15,939 | (2,674) |
| Dues & Subscriptions | 675 | 6,085 | (5,410) |
| Materials and Supplies | | | |
| Office Supplies | 5,320 | 6,583 | (1,263) |
| General Government | | | |
| School Guards | | | |
| Personal Services | | | |
| Pensions | 12,250 | 15,691 | (3,441) |
| Security of Persons and Property | | | |
| Fire Prevention | | | |
| Personal Services | | | |
| Uniform/Clothing | 0 | 256 | (256) |
| Contractual Services | | | |
| Special Services | 55,156 | 64,282 | (9,126) |
| Security of Persons and Property | | | |
| Police Communication | | | |
| Personal Services | | | |
| Pensions | 79,100 | 89,183 | (10,083) |
| Public Health and Welfare | | | |
| Animal Control | | | |
| Contractual Services | | | |
| Special Services | 2,700 | 5,790 | (3,090) |

**CITY OF GARFIELD HEIGHTS
CUYAHOGA COUNTY**

**SCHEDULE OF FINDINGS
DECEMBER 31, 2008 AND DECEMBER 31, 2007**

FINDING NUMBER 2008-001 (Continued)

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

| Fund/Function/Detail Object | Appropriations Plus PY Encumbrances | Expenditures Plus Encumbrances | Excess |
|--|---|--------------------------------------|-----------|
| At December 31, 2008 (Continued) | | | |
| General Fund (Continued) | | | |
| Security of Persons and Property | | | |
| Police Department - Correctional Institution | | | |
| Personal Services | | | |
| Pensions | 49,000 | 55,981 | (6,981) |
| Contractual Services | | | |
| Special Services | 12,525 | 14,370 | (1,845) |
| General Government | | | |
| Building Standards and Maintenance | | | |
| Personal Services | | | |
| Pensions | 87,850 | 97,751 | (9,901) |
| Materials and Supplies | | | |
| Operating Supplies | 2,300 | 2,611 | (311) |
| Community Environment | | | |
| Planning and Zoning | | | |
| Personal Services | | | |
| Pensions | 1,565 | 1,794 | (229) |
| Basic Utility Service | | | |
| Solid Waste Disposal | | | |
| Contractual Services | | | |
| Special Services | 1,352,600 | 1,786,088 | (433,488) |
| General Government | | | |
| Administration Support | | | |
| Personal Services | | | |
| Pensions | 60,000 | 69,619 | (9,619) |
| Materials and Supplies | | | |
| Office Supplies | 1,000 | 3,789 | (2,789) |
| General Government | | | |
| Legislative | | | |
| Personal Services | | | |
| Pensions | 17,050 | 19,165 | (2,115) |
| Medicare Reimbursement | 0 | 400 | (400) |
| Contractual Services | | | |
| Special Services | 0 | 64 | (64) |
| Materials and Supplies | | | |
| Office Supplies | 0 | 75 | (75) |

**CITY OF GARFIELD HEIGHTS
CUYAHOGA COUNTY**

**SCHEDULE OF FINDINGS
DECEMBER 31, 2008 AND DECEMBER 31, 2007**

FINDING NUMBER 2008-001 (Continued)

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

| Fund/Function/Detail Object | Appropriations Plus PY Encumbrances | Expenditures Plus Encumbrances | Excess |
|------------------------------------|---|--------------------------------------|-----------|
| At December 31, 2008 (Continued) | | | |
| General Fund (Continued) | | | |
| General Government | | | |
| Legal Administration | | | |
| Personal Services | | | |
| Pensions | 87,500 | 96,253 | (8,753) |
| Training and Education | 2,000 | 2,275 | (275) |
| Contractual Services | | | |
| Special Services | 94,576 | 114,896 | (20,320) |
| General Government | | | |
| Court | | | |
| Personal Services | | | |
| Hospitalization and Life Insurance | 375,000 | 619,670 | (244,670) |
| Employee Bonds | | | |
| Bonds and Insurance | 0 | 100 | (100) |
| General Government | | | |
| Lands and Buildings | | | |
| Personal Services | | | |
| Pensions | 96,500 | 116,419 | (19,919) |
| General Government | | | |
| Civil Service Commission | | | |
| Personal Services | | | |
| Pensions | 700 | 780 | (80) |
| General Government | | | |
| Miscellaneous | | | |
| Personal Services | | | |
| Unemployment Compensation | 5,000 | 9,402 | (4,402) |
| Workmens Compensation | 508,050 | 604,181 | (96,131) |
| Contractual Services | | | |
| Bank Service Charge | 4,800 | 5,868 | (1,068) |
| Ambulance Service Charge | 1,950 | 2,148 | (198) |
| Other | | | |
| Liability Insurance | 107,000 | 136,491 | (29,491) |
| Insurance Claims | 6,000 | 9,344 | (3,344) |
| State Examiner | 30,000 | 37,131 | (7,131) |
| Recoverable Expenditure | 0 | 402 | (402) |
| Transfers | | | |
| Trans- CFGF | 0 | 8,073 | (8,073) |

**CITY OF GARFIELD HEIGHTS
CUYAHOGA COUNTY**

**SCHEDULE OF FINDINGS
DECEMBER 31, 2008 AND DECEMBER 31, 2007**

FINDING NUMBER 2008-001 (Continued)

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

| Fund/Function/Detail Object | Appropriations Plus PY Encumbrances | Expenditures Plus Encumbrances | Excess |
|----------------------------------|---|--------------------------------------|----------|
| At December 31, 2008 (Continued) | | | |
| General Fund (Continued) | | | |
| Community Environment | | | |
| Economic Development | | | |
| Personal Services | | | |
| Pensions | 26,725 | 29,681 | (2,956) |
| Training & Education | 250 | 370 | (120) |
| Recreation Fund | | | |
| Leisure Time Activities | | | |
| Recreation Board | | | |
| Personal Services | | | |
| Pensions | 215 | 251 | (36) |
| Leisure Time Activities | | | |
| Administration | | | |
| Personal Services | | | |
| Pensions | 71,500 | 83,074 | (11,574) |
| Workmens Comp | 26,600 | 31,638 | (5,038) |
| Telephone | 600 | 667 | (67) |
| Leisure Time Activities | | | |
| Swim, Golf, Tennis | | | |
| Personal Services | | | |
| Salaries and Wages | 40,000 | 44,600 | (4,600) |
| Pensions | 5,600 | 6,236 | (636) |
| Contractual Services | | | |
| Special Services | 500 | 696 | (196) |
| Leisure Time Activities | | | |
| Skating | | | |
| Other | | | |
| Refunds and Reimbursements | 500 | 1,002 | (502) |

**CITY OF GARFIELD HEIGHTS
CUYAHOGA COUNTY**

**SCHEDULE OF FINDINGS
DECEMBER 31, 2008 AND DECEMBER 31, 2007**

FINDING NUMBER 2008-001 (Continued)

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

| Fund/Function/Detail Object | Appropriations Plus PY Encumbrances | Expenditures Plus Encumbrances | Excess |
|--|---|--------------------------------------|----------|
| At December 31, 2008 (Continued) | | | |
| Recreation Fund (Continued) | | | |
| Leisure Time Activities | | | |
| Organized Sports | | | |
| Personal Services | | | |
| Pensions | 3,500 | 4,805 | (1,305) |
| Other | | | |
| Refunds and Reimbursements | 750 | 885 | (135) |
| Street Construction Maintenance & Repair Fund | | | |
| Transportation | | | |
| Traffic Control | | | |
| Contractual Services | | | |
| Special Services | 51,500 | 58,714 | (7,214) |
| Transportation | | | |
| Street Construction | | | |
| Personal Services | | | |
| Pensions | 105,000 | 128,689 | (23,689) |
| Storm and Sanitary Sewer Fund | | | |
| Basic Utility Service | | | |
| Personal Services | | | |
| Pensions | 14,500 | 16,273 | (1,773) |
| Hospitalization and Life Insurance | 31,000 | 39,580 | (8,580) |
| Federal Nutrition Budget Program Fund | | | |
| Public Health and Welfare | | | |
| Personal Services | | | |
| Workers Comp | 8,704 | 10,352 | (1,648) |
| Contractual Services | | | |
| Special Services | 11,705 | 31,145 | (19,440) |
| Materials and Supplies | | | |
| Office Supplies | 200 | 2,170 | (1,970) |
| Operating Supplies | 7,100 | 9,368 | (2,268) |
| Other | | | |
| Refunds & Reimbursements | 0 | 283 | (283) |
| Municipal Court Probation Service Fund | | | |
| General Government | | | |
| Personal Services | | | |
| Salaries and Wages | 104,000 | 128,897 | (24,897) |
| Pensions | 14,560 | 19,530 | (4,970) |
| Workers Comp | 4,900 | 5,832 | (932) |

**CITY OF GARFIELD HEIGHTS
CUYAHOGA COUNTY**

**SCHEDULE OF FINDINGS
DECEMBER 31, 2008 AND DECEMBER 31, 2007**

FINDING NUMBER 2008-001 (Continued)

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

| Fund/Function/Detail Object | Appropriations Plus PY Encumbrances | Expenditures Plus Encumbrances | Excess |
|---|---|--------------------------------------|-----------|
| At December 31, 2008 (Continued) | | | |
| Municipal Court Special Service Fund | | | |
| General Government | | | |
| Contractual Services | | | |
| Special Services | 6,220 | 10,015 | (3,795) |
| Municipal Court Capital Improvement Fund | | | |
| General Government | | | |
| Personal Services | | | |
| Pensions | 8,820 | 10,295 | (1,475) |
| Training and Education | 3,000 | 3,613 | (613) |
| Workers Comp | 980 | 1,166 | (186) |
| Materials and Supplies | | | |
| Operating Supplies | 9,514 | 34,675 | (25,161) |
| Transportation/Antenucci Improvement 04 Fund | | | |
| Capital Outlay | | | |
| Contractual Services | | | |
| Tiff- Trustee | 1,458,356 | 1,864,796 | (406,440) |
| Tiff- Schools | 586,398 | 662,570 | (76,172) |
| Revolving Fund | | | |
| General Government | | | |
| Personal Services | | | |
| Pensions | 50,000 | 59,343 | (9,343) |
| Workmens Comp | 10,175 | 12,101 | (1,926) |
| Materials and Supplies | | | |
| Office Supplies | 1,307 | 7,821 | (6,514) |
| Diesel Fuel | 77,625 | 106,198 | (28,573) |
| At December 31, 2007 | | | |
| General Fund | | | |
| Security of Persons and Property | | | |
| Police Department – General Law Enforcement | | | |
| Personal Services | | | |
| Training & Education | 10,640 | 16,365 | (5,725) |
| Materials and Supplies | | | |
| Office Supplies | 5,790 | 9,815 | (4,025) |

**CITY OF GARFIELD HEIGHTS
CUYAHOGA COUNTY**

**SCHEDULE OF FINDINGS
DECEMBER 31, 2008 AND DECEMBER 31, 2007**

FINDING NUMBER 2008-001 (Continued)

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

| Fund/Function/Detail Object | Appropriations Plus PY Encumbrances | Expenditures Plus Encumbrances | Excess |
|------------------------------------|---|--------------------------------------|----------|
| At December 31, 2007 (Continued) | | | |
| General Fund (Continued) | | | |
| Public Health and Welfare | | | |
| Animal Control | | | |
| Contractual Services | | | |
| Special Services | 1,255 | 3,115 | (1,860) |
| Materials and Supplies | | | |
| Operating Supplies | 2,940 | 4,455 | (1,515) |
| Security of Persons and Property | | | |
| Police Department | | | |
| Correctional Institution | | | |
| Materials and Supplies | | | |
| Operating Supplies | 28,511 | 38,775 | (10,264) |
| General Government | | | |
| Building Standards and Maintenance | | | |
| Personal Services | | | |
| Dues & Subscriptions | 1,230 | 2,921 | (1,691) |
| Materials and Supplies | | | |
| Office Supplies | 4,005 | 6,527 | (2,522) |
| Community Environment | | | |
| Planning and Zoning | | | |
| Contractual Services | | | |
| Advertising/Printing | 0 | 64 | (64) |
| General Government | | | |
| Legislative | | | |
| Personal Services | | | |
| Training and Education | 0 | 421 | (421) |
| General Government | | | |
| Finance | | | |
| Materials and Supplies | | | |
| Office Supplies | 3,572 | 4,345 | (773) |
| General Government | | | |
| Legal Administration | | | |
| Personal Services | | | |
| Training and Education | 1,200 | 4,072 | (2,872) |
| Dues and Subscriptions | 2,000 | 2,967 | (967) |

**CITY OF GARFIELD HEIGHTS
CUYAHOGA COUNTY**

**SCHEDULE OF FINDINGS
DECEMBER 31, 2008 AND DECEMBER 31, 2007**

FINDING NUMBER 2008-001 (Continued)

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

| Fund/Function/Detail Object | Appropriations Plus PY Encumbrances | Expenditures Plus Encumbrances | Excess |
|------------------------------------|---|--------------------------------------|-----------|
| At December 31, 2007 (Continued) | | | |
| General Fund (Continued) | | | |
| General Government | | | |
| Court | | | |
| Personal Services | | | |
| Hospitalization and Life Insurance | 250,000 | 446,464 | (196,464) |
| Dues and Subscriptions | 2,550 | 4,016 | (1,466) |
| Contractual Services | | | |
| Special Services | 35,430 | 66,215 | (30,785) |
| Materials and Supplies | | | |
| Operating Supplies | 54,254 | 69,129 | (14,875) |
| General Government | | | |
| Lands and Buildings | | | |
| Personal Services | | | |
| Hospitalization and Life Insurance | 112,000 | 125,549 | (13,549) |
| Uniform/Clothing | 4,500 | 5,477 | (977) |
| Contractual Services | | | |
| Telephone | 77,000 | 95,492 | (18,492) |
| Materials and Supplies | | | |
| Office Supplies | 0 | 2,037 | (2,037) |
| Operating Supplies | 161,051 | 195,271 | (34,220) |
| General Government | | | |
| Civil Service Commission | | | |
| Contractual Services | | | |
| Special Services | 10,000 | 12,865 | (2,865) |
| General Government | | | |
| Miscellaneous | | | |
| Personal Services | | | |
| Unemployment Compensation | 4,000 | 7,015 | (3,015) |
| Workmens Compensation | 400,000 | 508,050 | (108,050) |
| Office Supplies | 5,346 | 7,185 | (1,839) |
| Other | | | |
| Employee Bonds | 0 | 616 | (616) |
| Refunds and Reimbursements | 2,530 | 5,358 | (2,828) |

**CITY OF GARFIELD HEIGHTS
CUYAHOGA COUNTY**

**SCHEDULE OF FINDINGS
DECEMBER 31, 2008 AND DECEMBER 31, 2007**

FINDING NUMBER 2008-001 (Continued)

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

| Fund/Function/Detail Object | Appropriations Plus PY Encumbrances | Expenditures Plus Encumbrances | Excess |
|------------------------------------|---|--------------------------------------|----------|
| At December 31, 2007 (Continued) | | | |
| General Fund (Continued) | | | |
| Community Environment | | | |
| Economic Development | | | |
| Contractual Services | | | |
| Special Services | 2,575 | 2,978 | (403) |
| Advertising/Printing | 690 | 1,187 | (497) |
| Materials and Supplies | | | |
| Office Supplies | 18 | 110 | (92) |
| Permanent Improvements Fund | | | |
| Capital Outlay | | | |
| Contractual Services | | | |
| Special Services | 193,100 | 222,976 | (29,876) |
| Recreation Fund | | | |
| Leisure Time Activities | | | |
| Recreation Board | | | |
| Personal Services | | | |
| Training & Education | 0 | 189 | (189) |
| Other | | | |
| Special Services | 0 | 2,400 | (2,400) |
| Leisure Time Activities | | | |
| Administration | | | |
| Personal Services | | | |
| Training & Education | 0 | 600 | (600) |
| Workmens Comp | 20,500 | 26,604 | (6,104) |
| Contractual Services | | | |
| Special Services | 12,761 | 15,137 | (2,376) |
| Materials and Supplies | | | |
| Office Supplies | 2,506 | 3,284 | (778) |
| Operating Supplies | 66,458 | 64,073 | (2,385) |
| Leisure Time Activities | | | |
| Swim, Golf, Tennis | | | |
| Contractual Services | | | |
| Special Services | 300 | 490 | (190) |
| Materials and Supplies | | | |
| Operating Supplies | 13,000 | 15,662 | (2,662) |

**CITY OF GARFIELD HEIGHTS
CUYAHOGA COUNTY**

**SCHEDULE OF FINDINGS
DECEMBER 31, 2008 AND DECEMBER 31, 2007**

FINDING NUMBER 2008-001 (Continued)

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

| Fund/Function/Detail Object | Appropriations Plus PY Encumbrances | Expenditures Plus Encumbrances | Excess |
|--|---|--------------------------------------|----------|
| At December 31, 2007 (Continued) | | | |
| Recreation Fund (Continued) | | | |
| Leisure Time Activities | | | |
| Skating | | | |
| Contractual Services | | | |
| Special Services | 25,888 | 35,840 | (9,952) |
| Other | | | |
| Refunds and Reimbursements | 500 | 2,671 | (2,171) |
| Leisure Time Activities | | | |
| Organized Sports | | | |
| Personal Services | | | |
| Salaries and Wages | 23,000 | 29,770 | (6,770) |
| Contractual Services | | | |
| Special Services | 7,930 | 10,464 | (2,534) |
| Other | | | |
| Refunds and Reimbursements | 750 | 899 | (149) |
| Leisure Time Activities | | | |
| Concessions | | | |
| Contractual Services | | | |
| Special Services | 0 | 170 | (170) |
| Street Construction Maintenance and Repair Fund | | | |
| Transportation | | | |
| Traffic Control | | | |
| Materials and Supplies | | | |
| Operating Supplies | 10,000 | 21,318 | (11,318) |
| Street Construction | | | |
| Personal Services | | | |
| Workers Comp | 32,000 | 40,396 | (8,396) |
| Contractual Services | | | |
| Advertising/Printing | 0 | 5,437 | (5,437) |
| Materials and Supplies | | | |
| Operating Supplies | 60,793 | 119,231 | (58,438) |
| State Highway Improvement Fund | | | |
| Transportation | | | |
| Traffic Control | | | |
| Contractual Services | | | |
| Special Services | 3,500 | 5,200 | (1,700) |

**CITY OF GARFIELD HEIGHTS
CUYAHOGA COUNTY**

**SCHEDULE OF FINDINGS
DECEMBER 31, 2008 AND DECEMBER 31, 2007**

FINDING NUMBER 2008-001 (Continued)

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

| Fund/Function/Detail Object | Appropriations Plus PY Encumbrances | Expenditures Plus Encumbrances | Excess |
|---|---|--------------------------------------|----------|
| At December 31, 2007 (Continued) | | | |
| State Highway Improvement Fund (Continued) | | | |
| Transportation | | | |
| Street Construction | | | |
| Personal Services | | | |
| Workers Comp | 1,500 | 1,839 | (339) |
| Materials and Supplies | | | |
| Operating Supplies | 0 | 2,500 | (2,500) |
| City Income Tax Fund | | | |
| General Government | | | |
| Contractual Services | | | |
| Special Services | 306,750 | 361,069 | (54,319) |
| Storm and Sanitary Sewer Fund | | | |
| Capital Outlay | | | |
| Personal Services | | | |
| Workers Comp | 8,500 | 10,544 | (2,044) |
| Federal Nutrition Budget Program Fund | | | |
| Public Health and Welfare | | | |
| Personal Services | | | |
| Workers Comp | 7,000 | 8,705 | (1,705) |
| Other | | | |
| Refunds & Reimbursements | 0 | 182 | (182) |
| Community Development Fund | | | |
| Community Environment | | | |
| Contractual Services | | | |
| Special Services | 0 | 2,985 | (2,985) |
| Equipment CAP Outlay | 0 | 45,290 | (45,290) |
| Law Enforcement Trust Fund | | | |
| Security of Persons and Property | | | |
| Contractual Services | | | |
| Special Services | 1,000 | 8,796 | (7,796) |

**CITY OF GARFIELD HEIGHTS
CUYAHOGA COUNTY**

**SCHEDULE OF FINDINGS
DECEMBER 31, 2008 AND DECEMBER 31, 2007**

FINDING NUMBER 2008-001 (Continued)

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

| Fund/Function/Detail Object | Appropriations Plus PY Encumbrances | Expenditures Plus Encumbrances | Excess |
|---|---|--------------------------------------|----------|
| At December 31, 2007 (Continued) | | | |
| Municipal Court Probation Service Fund | | | |
| General Government | | | |
| Personal Services | | | |
| Workers Comp | 4,000 | 4,904 | (904) |
| Dues and Subscriptions | 0 | 400 | (400) |
| Contractual Services | | | |
| Special Services | 500 | 4,315 | (3,815) |
| Materials and Supplies | | | |
| Office Supplies | 150 | 450 | (300) |
| Municipal Court Capital Improvement Fund | | | |
| Capital Outlay | | | |
| Personal Services | | | |
| Hospitalization and Life Insurance | 9,600 | 18,305 | (8,705) |
| Workers Comp | 750 | 981 | (231) |
| Materials and Supplies | | | |
| Operating Supplies | 6,345 | 9,183 | (2,838) |
| Capital Outlay | | | |
| Equipment Capital Outlay | 69,670 | 85,508 | (15,838) |
| Revolving Fund | | | |
| General Government | | | |
| Personal Services | | | |
| Salaries and Wages | 275,000 | 313,630 | (38,630) |
| Pensions | 38,087 | 50,523 | (12,436) |
| Workmens Comp | 8,000 | 10,176 | (2,176) |
| Contractual Services | | | |
| Advertising/Printing | 0 | 550 | (550) |
| Materials and Supplies | | | |
| Gasoline | 193,275 | 250,714 | (57,439) |
| Oil | 6,261 | 10,097 | (3,836) |
| Grease | 500 | 1,189 | (689) |
| Batteries | 4,065 | 6,776 | (2,711) |
| Tires and Tubes | 30,001 | 40,770 | (10,769) |
| Misc Repair Parts | 123,886 | 137,319 | (13,433) |

Official's Response:

The City will closely monitor their budgetary statements and pass an amended appropriation at year end and at the point in time during the year when budget adjustments are incurred.

**CITY OF GARFIELD HEIGHTS
CUYAHOGA COUNTY**

**SCHEDULE OF FINDINGS
DECEMBER 31, 2008 AND DECEMBER 31, 2007**

FINDING NUMBER 2008-002

Estimated Resources vs. Appropriations – Noncompliance Finding

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

The following funds had appropriations which were in excess of estimated resources as reported on the Official Certificate of Estimated Resources at December 31, 2008 and December 31, 2007:

At December 31, 2008:

| Fund | Estimated Resources | Appropriations | Variance |
|--------------------------------|---------------------|----------------|-------------|
| Federal Nutrition Budget Fund | \$ 72,146 | \$ 458,740 | (\$386,594) |
| Municipal Cap Improvement Fund | 179,767 | 275,105 | (95,338) |
| ST Improvement Note 2007 Fund | 2,263,246 | 2,266,633 | (3,387) |
| Revolving Equipment Fund | (133,877) | 1,214,465 | (1,348,342) |

At December 31, 2007:

| Fund | Estimated Resources | Appropriations | Variance |
|-------------------------------|---------------------|----------------|--------------|
| Federal Nutrition Budget Fund | \$ 24,654 | \$ 476,630 | (\$ 451,976) |
| Equipment Acq. Note 2007 Fund | 0 | 1,135,000 | (1,135,000) |
| Rec Center Note 2007 Fund | 0 | 1,050,000 | (1,050,000) |
| ST Improvement Note 2007 Fund | 0 | 1,225,000 | (1,225,000) |
| Revolving Equipment Fund | 759,476 | 1,124,456 | (364,980) |

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

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

Official's Response:

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

**CITY OF GARFIELD HEIGHTS
CUYAHOGA COUNTY**

**SCHEDULE OF FINDINGS
DECEMBER 31, 2008 AND DECEMBER 31, 2007**

FINDING NUMBER 2008-003

Negative Cash Balances – Noncompliance Finding

Ohio Rev. Code Section 5705.10 (H) requires that money paid into a fund shall be used only for the purposes for which such fund is established. As a result, a negative cash balance indicates that money from one fund was used to cover the expenses of another fund. The following funds had a deficit cash balance as of December 31, 2008 and December 31, 2007.

At December 31, 2008:

| Fund | Negative Fund Balance |
|------------------------|--------------------------|
| General Fund | \$1,587,020 |
| Special Revenue Funds | |
| Recreation Fund | 114,433 |
| SCMR Fund | 477,849 |
| Federal Nutrition Fund | 681,992 |
| Bond Retirement Fund | 31,992 |

At December 31, 2007:

| Fund | Negative Fund Balance |
|----------------------------|--------------------------|
| General Fund | \$1,495,171 |
| Special Revenue Funds | |
| Recreation Fund | 106,893 |
| SCMR Fund | 465,318 |
| Federal Nutrition Fund | 731,365 |
| Community Development | 43,851 |
| Bond Retirement Fund | 8,453 |
| Capital Project Fund | |
| Permanent Improvement Fund | 235,172 |

We recommend the City review the activities of these funds periodically to ensure that adequate cash balances are maintained and to ensure that monies paid into a fund are used for the purposes for which the fund is established.

Officials Response:

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

FINDING NUMBER 2008-004

Recording of Encumbrances – Noncompliance Finding

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

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

**CITY OF GARFIELD HEIGHTS
CUYAHOGA COUNTY**

**SCHEDULE OF FINDINGS
DECEMBER 31, 2008 AND DECEMBER 31, 2007**

FINDING NUMBER 2008-004 (Continued)

Recording of Encumbrances – Noncompliance Finding (Continued)

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

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

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

Official's Response:

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

**CITY OF GARFIELD HEIGHTS
CUYAHOGA COUNTY**

**SCHEDULE OF PRIOR AUDIT FINDINGS
December 31, 2008 and December 31, 2007**

| Finding Number | Finding Summary | Fully Corrected? | Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; <i>Explain</i> |
|----------------|--|------------------|--|
| 2006-001 | Recording of encumbrances; management does not record encumbrances during the year | No | Not Corrected; Reissued as 2008-004. |
| 2006-002 | Ohio Rev. Code Section 5705.41(B), expenditures plus encumbrances in excess of appropriations. | No | Not Corrected; Reissued as 2008-001. |
| 2006-003 | Ohio Rev. Code Section 5705.10(H), negative cash fund balances. | No | Not Corrected; Reissued as 2008-003. |
| 2006-004 | Ohio Rev. Code Section 5705.39, estimated resources vs. appropriations | No | Not Corrected; Reissued as 2008-002. |
| 2006-005 | Ohio Rev. Code Section 5705.41(D)(1), certification of availability of funds. | No | Partially Corrected; Issued as a management letter comment. |



Mary Taylor, CPA
Auditor of State

CITY OF GARFIELD HEIGHTS

CUYAHOGA COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
AUGUST 10, 2010**