



**CITY OF GARFIELD HEIGHTS  
CUYAHOGA COUNTY**

**REGULAR AUDIT**

**FOR THE YEAR ENDED DECEMBER 31, 2003**



**Auditor of State  
Betty Montgomery**



**CITY OF GARFIELD HEIGHTS  
CUYAHOGA COUNTY**

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## Auditor of State Betty Montgomery

### INDEPENDENT ACCOUNTANTS' REPORT

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

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 year ended December 31, 2003, 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 *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the City of Garfield Heights, Cuyahoga County, Ohio, as of December 31, 2003, and the respective changes in financial position, and the respective budgetary comparison for the General Fund thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As described in Note 19 to the financial statements, the City experienced financial difficulties at December 31, 2003. The difficulties have resulted in deficit fund balances in the General Fund, Various Improvement Fund, and other less significant funds. Management's corrective action plan is described in Note 19 to the financial statements.

In accordance with *Government Auditing Standards*, we have also issued our report dated June 9, 2004, on our consideration of the City's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

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

A handwritten signature in black ink that reads "Betty Montgomery". The signature is written in a cursive, flowing style.

**Betty Montgomery**  
Auditor of State

June 9, 2004

**City of Garfield Heights, Ohio**  
*Management's Discussion and Analysis*  
*For the Year Ended December 31, 2003*  
*Unaudited*

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This Discussion and Analysis of The City of Garfield Heights' financial performance provides an overall review of the City's financial activities for the year ended December 31, 2003. The intent of this discussion and analysis is to look at the City's financial performance as a whole. Readers should also review the basic financial statements to enhance their understanding of the City's financial performance.

### **Financial Highlights**

You will notice a simple recurring premise throughout this discussion and the ensuing financial statements that; being that most revenue sources were down and most expenditures were up. Although 2003 was not a huge financial success, as you will see in the later sections of this discussion, the City administrators were not just sitting back and watching all this happen. Knowing that 2003 and possibly much of 2004 were going to be major rebuilding years for the City, the City leaders have taken this time to work on the future, with hopes that the City of Garfield Heights can weather out these lean 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 assets. Major fund financial statements provide the next level of detail. For governmental funds, these statements tell how services were financed in the short-term as well as what dollars remain for future spending. The fund financial statements also look at the City's most significant funds with all other non-major funds presented in total in one column.

### **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 2003?" The Statement of Net Assets and the Statement of Activities answer this question. These statements include all assets and liabilities using the accrual basis of accounting similar to the accounting used by the private sector companies. This basis of accounting takes into account all of the current year's revenues and expenses regardless of when the cash is received or paid.

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

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

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**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, Bond Retirement and Various Improvement 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.

**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 2003 compared to 2002.

(Table 1)  
 Net Assets

	Governmental Activities	
	2003	2002
<b>Assets</b>		
Current and Other Assets	\$16,704,995	\$16,405,418
Capital Assets, Net	38,329,450	40,026,178
<i>Total Assets</i>	55,034,445	56,431,596
<b>Liabilities</b>		
Current and Other Liabilities	19,614,098	15,834,047
Long-Term Liabilities:		
Due Within One Year	1,505,764	1,458,048
Due in More than One Year	26,435,222	27,646,733
<i>Total Liabilities</i>	\$47,555,084	\$44,938,828



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(Table 1)  
 Net Assets (continued)

	<u>Governmental Activities</u>	
	<u>2003</u>	<u>2002</u>
<b>Net Assets</b>		
Invested in Capital Assets Net of Related Debt	\$15,446,134	\$13,299,613
Restricted:		
Capital Projects	315,294	316,157
Debt Service	1,770,392	1,589,682
Street Lighting	99,264	137,066
Courts	80,072	192,551
Other Purposes	400,150	761,056
Unrestricted	<u>(10,631,945)</u>	<u>(4,803,357)</u>
<i>Total Net Assets</i>	<u><u>\$7,479,361</u></u>	<u><u>\$11,492,768</u></u>

Current and other assets increased by \$299,577 and capital assets (net of depreciation) decreased by \$1,696,728, thus creating a decrease in total assets of \$1,397,151. Total combined equity in pooled cash and cash equivalents decreased by \$178,613 between 2002 and 2003.

Current and other liabilities increased by \$3,780,051 due to increases in notes payable, contracts payable, deferred revenue and accrued interest payables. The City's investment in capital assets (net of related debt) increased by \$2,146,521 over 2002.

Net assets of the City's governmental activities decreased by \$4,013,407, with unrestricted net assets decreasing \$5,828,588. 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 of Garfield Heights is 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 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.

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Table 2 shows the changes in net assets for the year ended December 31, 2003, as compared to the changes in net assets as of December 31, 2002.

Table 2  
Changes in Net Assets

	Governmental Activities	
	2003	2002
<b>Revenues</b>		
<b><i>Program Revenues</i></b>		
Charges for Services	\$3,300,497	\$3,252,468
Operating Grants and Contributions	942,810	1,198,204
Capital Grants and Contributions	100,220	480,134
<i>Total Program Revenues</i>	4,343,527	4,930,806
<b><i>General Revenues</i></b>		
Property Taxes	7,984,814	7,736,285
Municipal Income Tax	9,131,326	9,064,863
Grants and Entitlements not Restricted to Specific Programs	3,140,355	3,749,324
Investment Earnings	15,480	33,330
Gain on Sale of Capital Assets	6,140	13,413
Miscellaneous	1,142,046	1,661,707
<i>Total General Revenues</i>	21,420,161	22,258,922
<i>Total Revenues</i>	25,763,688	27,189,728
<b>Program Expenses</b>		
General Government	7,893,647	7,466,623
Security of Persons and Property	10,976,043	11,280,319
Public Health Services	603,100	583,626
Transportation	4,683,979	2,659,189
Community Development	152,427	210,908
Basic Utility Services	2,398,173	2,240,945
Leisure Time Activities	1,592,432	1,276,114
Interest and Fiscal Charges	1,477,294	1,153,517
<i>Total Program Expenses</i>	29,777,095	26,871,241
<i>Increase (Decrease) in Net Assets</i>	(4,013,407)	318,487
Net Assets Beginning of Year	11,492,768	11,174,281
<i>Net Assets End of Year</i>	\$7,479,361	\$11,492,768

Program revenues decreased \$587,279 while general revenues decreased \$838,761, thus resulting in an overall decrease in total revenues of \$1,426,040. A highlight in the general revenue area was the \$248,529 increase in

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property tax revenues over 2002 figures. Total program expenses over this period increased by \$2,905,854, although, a major highlight in the program expense area was the reduction of \$304,276 in security of persons and property expenses. The increase in the transportation program expense was due to various street maintenance projects. The net effect of these revenue decreases and expense increases was a decrease in net assets of \$4,013,407.

**Governmental Activities**

Several revenue sources fund our governmental activities. Under the accrual basis of accounting, the City income taxes accounted for \$9,131,326 or 35.44 percent of total revenues; property taxes accounted for \$7,984,814 or 30.99 percent of gross revenues; grants and entitlements accounted for \$3,140,355 or 12.19 percent of gross revenues; and charges for services accounted for \$3,300,497 or 12.81 percent of gross 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 accounted for 36.86 percent of total program expenses; general government expenditures accounted for 33.01 percent; transportation accounted for 9.23 percent; and basic utility accounting for 8.05 percent. Overall, there was an increase in program expenses of \$2,905,854 over 2002 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 16. These funds are accounted for using the modified accrual basis of accounting. Review of these statements will reveal that all government funds had total revenues of \$25,953,927 and total expenditures of \$29,246,620. The net effect for all government funds was a deficit balance of \$8,032,271. This may seem alarming, however under GAAP reporting requirements all short term borrowing in note funds must be accounted for in total as a liability in that period until such time as they are bonded by the City. One of the three major funds reported by the City of Garfield Heights in these statements is a note fund used to finance various construction projects, which according to the requirements reported deficit fund balances of \$4,020,206.

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, and the economic slow down that has had a grip on this 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 an accrued deficit fund balance of \$841,188 at year end. Comparison of the General fund budgetary information with the actual fund specifics indicates that there were many areas where variances were quite significant. There were many major factors that resulted in the loss of actual cash revenues during 2003 that caused the drastic reduction in the fund and resulted in a negative fund balance. Some of these were: 1) an increase in the delinquency factor for property tax collections; 2) a loss of inheritance tax revenue due to a change in State Law as to the size of an estate on which the tax applies; 3) a loss in the local government revenue from the State of Ohio, and (4) a reduction in the City's municipal income tax collections. These factors combined to create over \$900,000 in lost revenue that the City had expected to collect during 2003. 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 2003, the City amended its General fund budget. All recommendations for a budget change come from the City Finance Director to the Finance Committee of Council for review before going to the whole Council for ordinance enactment on the change. The City does not allow budget changes that modify line items within departments without Council approval. With the General fund supporting many of the major activities such as the police and fire departments, as well as most legislative and executive activities, the General fund is monitored closely for possible revenue shortfalls or over spending by individual departments.

For the General fund, original budgeted revenues were \$19,345,707; final budget amounts were \$19,272,937; and actual revenue collections were \$18,277,856. The major factors contributing to the decrease of actual revenues over the final budgeted amounts were decreases in revenues for the categories of property and other taxes, and municipal income taxes, and charges for services. The City of Garfield Heights' ending balance in the General fund was \$1,157,634 below the final budgeted amount, thus resulting in a deficit fund balance of \$1,114,927. 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,  
 (Net of Depreciation)

	Governmental Activities	
	2003	2002
Land	\$1,484,367	\$1,432,331
Buildings	12,259,612	12,618,285
Improvements other than Buildings	3,039,606	3,170,885
Vehicles	2,407,544	2,581,335
Machinery and Equipment	1,521,883	1,681,604
Furniture and Fixtures	286,245	297,883
Infrastructure	17,330,193	18,243,855
Total	\$38,329,450	\$40,026,178

The slight increase in land values was due to the transfer of property that did not sell at the County Sheriff's foreclosure auction and due to the purchase of one parcel to expand the entrance to a City park facility. As you can see all other capital asset valuations, net of depreciation, declined in value. The City purchased very little in

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the area a capital assets in 2003. Purchases totaled only \$354,782 for all capital asset categories combined, thus depreciation charges were the single most influential element to affect this area. See Note 8 for capital asset information.

***Debt Obligations***

At December 31, 2003 the City of Garfield Heights had \$30,756,000 in outstanding General Obligation Bonds, Special Assessment Bonds and Notes. The City's overall legal debt margin at December 31, 2003 was \$21,304,118. 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	
	2003	2002
General Obligation Bonds	\$21,274,867	\$22,360,304
Special Assessment Bonds	1,441,133	1,532,696
Notes	8,040,000	5,300,000
Police and Fire Loan	692,087	702,436
Capital Leases	167,316	333,565
Total	\$31,615,403	\$30,229,001

There were no new bond issues during 2003, however, the City of Garfield Heights did issue new short term notes in the amount of \$8,040,000, which funds are used for the interim financing during construction of various capital improvement construction projects and recreation facility projects. As these projects are completed in the future, these note funds will be eliminated and the actual project costs will be bonded by the City. You will notice that one of the three major funds reported by the City of Garfield Heights for 2003 is one of these a capital project funds. The second 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 \$692,087, 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 Notes 11 and 13 for detailed long-term and short-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 16 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. Additionally, over the past ten years, the City has converted two of the last three septic sanitary tank areas to sanitary sewer

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

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

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. 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 Garfield Heights border. Access to the Interstate Highway system from this location is via the Broadway Avenue entrance, which is in Garfield Heights. This facility was constructed through the summer of 2001 and was operational in late fall 2001. The City's projection of increased development in this area, due to the Intermodal Facility, has already started. Two companies have already constructed and occupied office/warehouse buildings in this area. Another contractor has amassed a 20-acre block of land in this area for future development. In addition to this private investment in this area, the City has recently been granted both a State Issue II and a Community Development Block Grant for the reconstruction of the East 131<sup>st</sup> Street/Broadway Intersection and the addition of another traffic lane in Broadway Avenue from Easy 131<sup>st</sup> 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.

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New development and expansion is also continuing in the I-480/Transportation Development District. Through the 1990's, the City's economic development programs were responsible for the development of five multi-million dollar Office/Flex Space facilities in this development district. Currently, the first of another two buildings in this area was recently completed and is approximately 85 percent occupied. The plans for the second building have been approved. 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 dollars 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 final 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. Currently, there are plans on the table for over 700,000 square-feet of retail in this area of Garfield Heights by the Heritage Development Corp. and that the financing, through \$8.2 million from property taxes, personal property and sales taxes, was nearing completion for the extension of Transportation Boulevard. This development, the "City Center South" project is to include a Wal-Mart, Circuit City, OfficeMax, Dick's Sports and other major department and home improvement stores, and is currently scheduled to open in the spring of 2005. There is also another new retail project in the works, as a spin off from the Heritage development. This development will be located on an adjacent 7 acres site to the Heritage development and will consist of retail and restaurants. This project is expected to open in the summer of 2005. It is estimated that when both projects are completed there will be nearly 1,000 new jobs added in the City.

### **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, 2003*

	<u>Governmental Activities</u>
<b>Assets</b>	
Equity in Pooled Cash and Cash Equivalents	\$846,585
Cash and Cash Equivalents With Fiscal Agents	5,972
Accounts Receivable	284,400
Intergovernmental Receivable	2,560,053
Prepaid Items	36,522
Materials and Supplies Inventory	21,170
Municipal Income Taxes Receivable	2,223,256
Property Taxes Receivable	9,285,904
Special Assessments Receivable	1,441,133
Land	1,484,367
Depreciable Capital Assets, Net	<u>36,845,083</u>
<i>Total Assets</i>	<u>55,034,445</u>
<b>Liabilities</b>	
Accounts Payable	232,363
Contracts Payable	755,998
Accrued Wages	253,828
Intergovernmental Payable	895,241
Deferred Revenue	8,992,578
Matured Bonds and Interest Payable	5,972
Accrued Interest Payable	222,448
Notes Payable	8,040,000
Claims Payable	215,670
Long-Term Liabilities:	
Due Within One Year	1,505,764
Due In More Than One Year	<u>26,435,222</u>
<i>Total Liabilities</i>	<u>47,555,084</u>
<b>Net Assets</b>	
Invested in Capital Assets, Net of Related Debt	15,446,134
Restricted for:	
Capital Projects	315,294
Debt Service	1,770,392
Street Lighting	99,264
Courts	80,072
Other Purposes	400,150
Unrestricted (Deficit)	<u>(10,631,945)</u>
<i>Total Net Assets</i>	<u><u>\$7,479,361</u></u>

See accompanying notes to the basic financial statements





**City of Garfield Heights, Ohio**

*Balance Sheet*

*Governmental Funds*

*December 31, 2003*

	General	Bond Retirement	Various Improvement	Other Governmental Funds	Total Governmental Funds
<b>Assets</b>					
Equity in Pooled Cash and Cash Equivalents	\$0	\$66,488	\$0	\$780,097	\$846,585
Cash and Cash Equivalents With Fiscal Agents	0	5,972	0	0	5,972
Receivables:					
Municipal Income Taxes	1,667,443	155,628	0	400,185	2,223,256
Property Taxes	6,633,528	1,312,783	0	1,339,593	9,285,904
Accounts	264,533	0	0	19,867	284,400
Intergovernmental	1,566,958	75,900	100,220	816,975	2,560,053
Special Assessments	0	1,441,133	0	0	1,441,133
Interfund Receivable	0	0	1,184,478	89,291	1,273,769
Prepaid Items	35,346	0	0	1,176	36,522
Materials and Supplies Inventory	12,358	0	0	8,812	21,170
<i>Total Assets</i>	<u>\$10,180,166</u>	<u>\$3,057,904</u>	<u>\$1,284,698</u>	<u>\$3,455,996</u>	<u>\$17,978,764</u>
<b>Liabilities</b>					
Accounts Payable	\$150,341	\$0	\$0	\$82,022	\$232,363
Contracts Payable	422,995	0	0	333,003	755,998
Accrued Wages	209,590	0	0	44,238	253,828
Intergovernmental Payable	253,023	354	0	46,657	300,034
Interfund Payable	734,443	0	0	539,326	1,273,769
Deferred Revenue	9,074,891	2,935,735	0	2,816,890	14,827,516
Matured Bonds and Interest Payable	0	5,972	0	0	5,972
Accrued Interest Payable	0	0	64,904	40,981	105,885
Notes Payable	0	0	5,240,000	2,800,000	8,040,000
Claims Payable	176,071	0	0	39,599	215,670
<i>Total Liabilities</i>	<u>11,021,354</u>	<u>2,942,061</u>	<u>5,304,904</u>	<u>6,742,716</u>	<u>26,011,035</u>
<b>Fund Balances</b>					
Reserved for Encumbrances	0	0	0	3,354	3,354
Unreserved, Undesignated, Reported in:					
General Fund (Deficit)	(841,188)	0	0	0	(841,188)
Special Revenue Funds (Deficit)	0	0	0	(166,575)	(166,575)
Debt Service Funds	0	115,843	0	0	115,843
Capital Projects Funds (Deficit)	0	0	(4,020,206)	(3,123,499)	(7,143,705)
<i>Total Fund Balances (Deficit)</i>	<u>(841,188)</u>	<u>115,843</u>	<u>(4,020,206)</u>	<u>(3,286,720)</u>	<u>(8,032,271)</u>
<i>Total Liabilities and Fund Balances</i>	<u>\$10,180,166</u>	<u>\$3,057,904</u>	<u>\$1,284,698</u>	<u>\$3,455,996</u>	<u>\$17,978,764</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, 2003*

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**Total Governmental Fund Balances** (\$8,032,271)

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

Capital assets used in governmental activities are not financial  
 resources and therefore are not reported in the funds. 38,329,450

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

Property Taxes	1,013,326
Municipal Income Taxes	1,513,122
Intergovernmental	1,867,357
Special Assessments	1,441,133

Total 5,834,938

Due to other governments includes contractually required  
 pension contributions not expected to be paid with  
 expendable available financial resources and therefore  
 not reported in the funds. (595,207)

In the statement of activities, interest is accrued on outstanding  
 bonds, whereas in governmental funds, an interest  
 expenditure is reported when due. (116,563)

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

General Obligation Bonds	(21,274,867)
Special Assessment Bonds	(1,441,133)
Capital Leases	(167,316)
Compensated Absences	(4,214,179)
Police and Fire Liability	(692,087)
Claims	(151,404)

Total (27,940,986)

*Net Assets of Governmental Activities* \$7,479,361

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, 2003*

	General	Bond Retirement	Various Improvement	Other Governmental Funds	Total Governmental Funds
<b>Revenues</b>					
Property and Other Taxes	\$5,439,776	\$1,071,690	\$0	\$1,094,333	\$7,605,799
Municipal Income Taxes	6,900,680	644,063	0	1,657,625	9,202,368
Special Assessments	0	91,563	0	0	91,563
Charges for Services	1,373,452	0	0	329,459	1,702,911
Fees, Licenses and Permits	157,923	0	0	326,359	484,282
Fines and Forfeitures	511,430	0	0	353,318	864,748
Intergovernmental	2,873,526	268,653	100,220	1,353,775	4,596,174
Interest	14,729	0	0	751	15,480
Rentals	25,418	0	0	0	25,418
Franchise Fees	223,138	0	0	0	223,138
Other	754,914	0	53,407	333,725	1,142,046
<i>Total Revenues</i>	<u>18,274,986</u>	<u>2,075,969</u>	<u>153,627</u>	<u>5,449,345</u>	<u>25,953,927</u>
<b>Expenditures</b>					
Current:					
General Government	6,978,316	23,829	0	418,781	7,420,926
Security of Persons and Property	9,023,710	0	0	1,466,907	10,490,617
Public Health Services	170,201	0	0	397,706	567,907
Transportation	0	0	0	1,840,415	1,840,415
Community Development	134,478	0	0	14,383	148,861
Basic Utility Service	1,332,094	0	0	555,897	1,887,991
Leisure Time Activities	0	0	0	1,005,694	1,005,694
Capital Outlay	0	0	1,588,258	1,515,748	3,104,006
Debt Service:					
Principal Retirement	118,585	1,177,000	0	58,013	1,353,598
Interest and Fiscal Charges	6,168	1,204,182	98,404	117,851	1,426,605
<i>Total Expenditures</i>	<u>17,763,552</u>	<u>2,405,011</u>	<u>1,686,662</u>	<u>7,391,395</u>	<u>29,246,620</u>
<i>Excess of Revenues Over (Under) Expenditures</i>	<u>511,434</u>	<u>(329,042)</u>	<u>(1,533,035)</u>	<u>(1,942,050)</u>	<u>(3,292,693)</u>
<b>Other Financing Sources (Uses)</b>					
Sale of Capital Assets	35,538	0	0	0	35,538
Transfers In	0	357,000	50,250	1,489,362	1,896,612
Transfers Out	(1,434,677)	(104,935)	0	(357,000)	(1,896,612)
<i>Total Other Financing Sources (Uses)</i>	<u>(1,399,139)</u>	<u>252,065</u>	<u>50,250</u>	<u>1,132,362</u>	<u>35,538</u>
<i>Net Change in Fund Balances</i>	(887,705)	(76,977)	(1,482,785)	(809,688)	(3,257,155)
<i>Fund Balances (Deficit) Beginning of Year</i>	46,517	192,820	(2,537,421)	(2,477,032)	(4,775,116)
<i>Fund Balances (Deficit) End of Year</i>	<u>(\$841,188)</u>	<u>\$115,843</u>	<u>(\$4,020,206)</u>	<u>(\$3,286,720)</u>	<u>(\$8,032,271)</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, 2003*

**Net Change in Fund Balances - Total Governmental Funds** (\$3,257,155)

*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	409,354	
Depreciation	(2,061,275)	
Total		(1,651,921)

Governmental funds only report the disposal of fixed assets to the extent proceeds are received from the sale. In the statement of activities, a gain or loss is reported for each disposal. (44,807)

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

Property Taxes	379,015	
Special Assessments	(91,563)	
Municipal Income Taxes	(71,042)	
Intergovernmental	(412,789)	
Total		(196,379)

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. 1,353,598

In the statement of activities, interest is accrued on outstanding bonds, whereas in governmental funds, an interest expenditure is reported when due. (50,689)

Some expenses reported in the statement of activities, such as compensated absences and intergovernmental payable (which represent contractually required pension contributions) do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds.

Compensated Absences	(235,482)	
Claims	45,679	
Pension Obligation	23,749	
Total		(166,054)

*Change in Net Assets of Governmental Activities* (\$4,013,407)

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, 2003*

	<u>Budgeted Amounts</u>			Variance with Final Budget Positive (Negative)
	<u>Original</u>	<u>Final</u>	<u>Actual</u>	
<b>Revenues</b>				
Property and Other Taxes	\$5,595,884	\$5,574,835	\$5,439,776	(\$135,059)
Municipal Income Taxes	7,001,336	6,975,000	6,830,891	(144,109)
Charges for Services	2,210,212	2,201,898	1,343,401	(858,497)
Fees, Licenses and Permits	210,391	209,600	193,307	(16,293)
Fines and Forfeitures	572,152	570,000	525,254	(44,746)
Intergovernmental	2,838,118	2,827,442	2,938,785	111,343
Interest	25,094	25,000	14,729	(10,271)
Rentals	24,091	24,000	25,418	1,418
Franchise Fees	220,831	220,000	223,138	3,138
Other	647,598	645,162	743,157	97,995
<i>Total Revenues</i>	<u>19,345,707</u>	<u>19,272,937</u>	<u>18,277,856</u>	<u>(995,081)</u>
<b>Expenditures</b>				
Current:				
General Government	6,869,422	6,851,876	7,102,510	(250,634)
Security of Persons and Property	8,993,989	8,971,016	8,952,197	18,819
Public Health and Welfare	171,357	170,919	169,701	1,218
Community Development	129,717	129,386	132,708	(3,322)
Basic Utility Service	1,293,143	1,289,840	1,254,012	35,828
<i>Total Expenditures</i>	<u>17,457,628</u>	<u>17,413,037</u>	<u>17,611,128</u>	<u>(198,091)</u>
<i>Excess of Revenues Over Expenditures</i>	<u>1,888,079</u>	<u>1,859,900</u>	<u>666,728</u>	<u>(1,193,172)</u>
<b>Other Financing Sources (Uses)</b>				
Sale of Capital Assets	0	0	35,538	35,538
Transfers Out	(1,423,856)	(1,434,677)	(1,434,677)	0
<i>Total Other Financing Sources (Uses)</i>	<u>(1,423,856)</u>	<u>(1,434,677)</u>	<u>(1,399,139)</u>	<u>35,538</u>
<i>Net Change in Fund Balance</i>	464,223	425,223	(732,411)	(1,157,634)
<i>Fund Balance (Deficit) Beginning of Year</i>	(469,997)	(469,997)	(469,997)	0
Prior Year Encumbrances Appropriated	87,481	87,481	87,481	0
<i>Fund Balance (Deficit) End of Year</i>	<u>\$81,707</u>	<u>\$42,707</u>	<u>(\$1,114,927)</u>	<u>(\$1,157,634)</u>

See accompanying notes to the basic financial statements

**City of Garfield Heights, Ohio**  
*Statement of Fiduciary Assets and Liabilities*  
*Agency Funds*  
*December 31, 2003*

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	<u>Agency</u>
<b>Assets</b>	
Cash and Cash Equivalents in Segregated Accounts	<u>\$95,390</u>
<b>Liabilities</b>	
Due to Others	<u>\$95,390</u>

See accompanying notes to the basic financial statements

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**City of Garfield Heights, Ohio**  
*Notes to the Basic Financial Statements*  
*For the Year Ended December 31, 2003*

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

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

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

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

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

***Reporting Entity***

A reporting entity is comprised of the primary government, component units and other organizations that are included to ensure that the financial statements are not misleading. The primary government of the City consists of all funds, agencies, departments and offices that are not legally separate from the City. For the City of Garfield Heights this includes 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 18 to the basic financial statements.

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

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

**City of Garfield Heights, Ohio**  
*Notes to the Basic Financial Statements*  
*For the Year Ended December 31, 2003*

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**A. Basis of Presentation**

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

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

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

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

**B. Fund Accounting**

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

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

**City of Garfield Heights, Ohio**  
*Notes to the Basic Financial Statements*  
*For the Year Ended December 31, 2003*

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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 fund is purely custodial (assets equal liabilities) and thus do not involve measurement of results of operations. The City's agency fund accounts for the municipal court's activity due to other cities.

***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.

***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 period in which the exchange on which the tax is imposed takes place. Revenue from property taxes is recognized in the fiscal year for which the taxes are levied (See Note 7.) Revenue from grants, entitlements and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the year when use is first permitted, matching requirements, in which the City must provide local resources to be used for a specified purpose, and expenditure requirements, in which the resources are provided to the City on a reimbursement basis.

**City of Garfield Heights, Ohio**  
*Notes to the Basic Financial Statements*  
*For the Year Ended December 31, 2003*

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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, 2003, but which were levied to finance year 2004 operations, have been recorded as deferred revenue. Grants and entitlements received before the eligibility requirements are met are also recorded as deferred revenue.

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

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

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

***E. Budgetary Process***

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

The certificate of estimated resources may be amended during the year if projected increases or decreases in revenue are identified by the Finance Director. The amounts reported as the original budgeted amounts on the budgetary statements reflect the amounts on the certificate of estimated resources when the original appropriations were adopted. The amounts reported as the final budgeted amounts on the budgetary statements reflect the amounts in the amended certificate in effect at the time the 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.

**City of Garfield Heights, Ohio**  
*Notes to the Basic Financial Statements*  
*For the Year Ended December 31, 2003*

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The municipal court special services special revenue and the permanent improvement, park facilities and municipal court improvements capital projects funds made an advance to the general, recreation, street construction maintenance and repair, federal nutrition and community development special revenue funds to eliminate the funds' negative cash balances. The general and special revenue 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 2003 amounted to \$14,729, all of which was assigned from other City funds.

The City utilizes a financial institution to service bonded debt as principal and interest come due. The balances of these accounts are presented as "Cash and Cash Equivalents with Fiscal Agents."

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

***G. Inventory***

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, 2003 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***

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

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

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

**City of Garfield Heights, Ohio**  
*Notes to the Basic Financial Statements*  
*For the Year Ended December 31, 2003*

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

***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 balances amounts are eliminated in the statement of net assets.

***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 sick leave for all employees.

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

***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 the

**City of Garfield Heights, Ohio**  
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enabling legislation adopted by the City or through external restrictions imposed by creditors, grantors or laws or regulations of other governments. Other purposes include street maintenance and repair, community development and nutrition program for seniors.

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

***O. Interfund Activity***

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

***P. 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.

***Q. Estimates***

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

**Note 3 - Budgetary Basis of Accounting**

While reporting financial position, results of operations, and changes in fund balances on the basis of generally accepted accounting principles (GAAP basis), the budgetary basis as provided by law is based upon accounting for transactions on a basis of cash receipts, disbursements and encumbrances. The Statement of Revenues, Expenditures, and Changes in Fund 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 is reported on the operating statements prepared using GAAP.

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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	
	General
GAAP Basis	(\$887,705)
Net Adjustment for Revenue Accruals	(30,264)
Beginning Unrecorded Cash	(44,337)
Ending Unrecorded Cash	77,471
Net Adjustment for Expenditure Accruals	277,088
Encumbrances	(124,664)
Budget Basis	(\$732,411)

**Note 4 – Restatement of Net Assets**

During 2003, it was determined that intergovernmental receivables were overstated by \$228,036 in other governmental funds. This restatement decreased net assets at December 31, 2002 \$228,036 from \$11,720,804 to \$11,492,768 and decreased the change in net assets for the year ended December 31, 2002 by \$228,036 from \$546,523 to \$318,487.

**Note 5 - Accountability and Compliance**

*A. Accountability*

The following funds had deficit fund balances as of December 31, 2003:

<b><i>General Funds</i></b>	\$841,188
<b><i>Special Revenue Funds</i></b>	
Recreation	82,817
Street Construction, Maintenance and Repair	306,511
Federal Nutrition	173,033
<b><i>Capital Projects Funds</i></b>	
Street Resurfacing	2,130,398
Various Improvement	4,020,206
Permanent Improvement	552,935
Park Facilities	691,963

The general fund concluded 2003 with a deficit fund balance of \$841,188. The deficit resulted because the City expended more and committed more than they received or will receive in revenue. The City is aware of the deficit and has approved legislation for the lease of two billboards along interstate I-480 at a cost of \$600,000 per billboard, bringing in a total amount of \$1.2 million dollars which will eliminate the deficit.



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

The street resurfacing, various improvement and park facilities capital projects funds' deficits are the result of the issuance of short-term bond anticipation notes which are used to finance the project until bonds are issued. Once the notes are retired or bonds are issued, these deficits will be eliminated.

**B. Compliance**

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

Fund	Expenditures Plus Encumbrances	Appropriations	Excess
<b><i>General Fund</i></b>			
General Government			
Personal Services	\$4,521,595	\$4,270,937	\$250,658
Security of Persons and Property			
Police Communication			
Personal Services	591,980	577,500	14,480
Community Environment			
Economic Development			
Personal Services	123,526	120,204	3,322
<b><i>Special Revenue Funds</i></b>			
Street Construction, Maintenance and Repair			
Transportation			
Material and Supplies	332,130	313,184	18,946
Recreation			
Leisure Time Activities			
Contractual Services	177,271	160,232	17,039
Federal Nutrition			
Public Health and Welfare			
Personal Services	343,574	268,287	75,287
<b><i>Capital Projects Funds</i></b>			
Permanent Improvement			
Capital Outlay			
Capital Outlay	237,568	235,600	1,968
Storm and Sewer			
Capital Outlay			
Contractual Services	148,066	140,858	7,208

The City was in violation of Ohio Revised Code Section 5705.41(D).

**City of Garfield Heights, Ohio**  
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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:

General Fund	\$734,443
Special Revenue Funds	
Recreation	69,874
Street Maintenance and Repair	312,429
Federal Nutrition	157,023

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

**Note 6 - Deposits and Investments**

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

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

Inactive deposits are public deposits that Council has identified as not required for use within the current 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 pass book accounts.

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

1. United States Treasury Notes, Bills, Bonds, or any other obligation or security issued by the United States Treasury or any other obligation guaranteed as to principal and interest by the United States;
2. Bonds, notes, debentures, or any other obligations or securities issued by any federal government agency or instrumentality, including but not limited to, the Federal National Mortgage Association, Federal Home Loan Bank, Federal Farm Credit Bank, Federal Home Loan Mortgage Corporation, Government National Mortgage Association, and Student Loan Marketing Association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;
3. Written repurchase agreements in the securities listed above provided that the market value of the securities subject to the repurchase agreement must exceed the principal value of the agreement by at least two percent and be marked to market daily, and that the term of the agreement must not exceed thirty days;

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4. Bonds and other obligations of the State of Ohio;
5. No-load money market mutual funds consisting exclusively of obligations described in division (1) or (2) of this section and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions; and,
6. The State Treasurer's investment pool (STAR Ohio).

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

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

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

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

**Deposits** At year-end, the carrying amount of the City's deposits was \$947,947 and the bank balance was \$1,008,155. Of the bank balance, \$277,471 was covered by federal depository insurance and \$730,684 was uncollateralized and uninsured. Although the pledging bank has an investment and securities pool used to collateralize all public deposits which are held in the financial institution's name, noncompliance with federal requirements could potentially subject the City to a successful claim by the FDIC.

#### **Note 7 – Receivables**

Receivables at December 31, 2003 consisted primarily of taxes, intergovernmental receivables and special assessments. No allowances for doubtful accounts have been recorded as uncollectible amounts are expected to be insignificant.

Special assessments expected to be collected in more than one year amount to \$1,340,333 in the bond retirement fund. At December 31, 2003 the amount of delinquent special assessments was \$89,175.

#### **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 2003 for real and public utility property taxes represents collections of the 2002 taxes. Property tax payments received during 2002 for tangible personal property (other than public utility property) are for 2003 taxes.

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2003 real property taxes are levied after October 1, 2003 on the assessed value as of January 1, 2003, the lien date. Assessed values are established by State law at 35 percent of appraised market value. 2003 real property taxes are collected in and intended to finance 2004.

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. 2003 public utility property taxes which became a lien December 31, 2002, are levied after October 1, 2003, and are collected in 2004 with real property taxes.

2003 tangible personal property taxes are levied after October 1, 2002, on the value as of December 31, 2002. Collections are made in 2003. Tangible personal property assessments are 25 percent of true value for capital assets and 23 percent of true value for inventory.

The full tax rate for all City operations for the year ended December 31, 2003, was \$20.10 per \$1,000 of assessed value. The assessed values of real and tangible personal property upon which 2003 property tax receipts were based are as follows:

Real Property:	
Agricultural/Residential	\$346,255,200
Other Real Estate	88,954,150
Public Utility	18,415,600
Tangible Personal Property	<u>27,357,357</u>
Total Assessed Value	<u><u>\$480,982,307</u></u>

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

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

The County Treasurer collects property taxes on behalf of all taxing districts in the county, including the City of Garfield Heights. The County Auditor periodically remits to the City its portion of the taxes collected. Property taxes receivable represents real and tangible personal property taxes and public utility taxes which are measurable as of December 31, 2003, and for which there is an enforceable legal claim. In the general, bond retirement, fire pension, police pension, recreation, street lights, and permanent improvement funds, the entire receivable has been offset by deferred revenue since the current taxes were not levied to finance 2003 operations and the collection of delinquent taxes during the available period is not subject to reasonable estimation. On a full accrual basis, collectible delinquent property taxes have been recorded as a receivable and 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, 2003*

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**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>
<b>Governmental Activities:</b>	
Local Government	\$1,045,107
Homestead and Rollback	537,177
Gas Tax	336,116
Grants	230,211
Motor Vehicle License	104,802
Ohio Public Works Commission	100,220
Public Utility	80,730
Municipal Court Cost	35,681
Overpayment Reimbursement	31,799
Estate Tax	26,472
Prisoner Rebillings	12,560
City of Bedford	7,173
Liquor Permits	4,663
Immobilization Fees	4,600
Hotel/Motel Tax	1,992
Indigent	750
<i>Total Intergovernmental Receivables</i>	<u><u>\$2,560,053</u></u>

**City of Garfield Heights, Ohio**  
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**Note 8 - Capital Assets**

Capital asset activity for the year ended December 31, 2003, was as follows:

	Balance 12/31/02	Additions	Deductions	Balance 12/31/03
<b>Governmental Activities</b>				
<i>Capital Assets, Not Being Depreciated</i>				
Land	\$1,432,331	\$54,572	(\$2,536)	\$1,484,367
<i>Capital Assets, Being Depreciated</i>				
Buildings	15,848,117	0	(28,004)	15,820,113
Improvements Other than Buildings	4,428,063	0	0	4,428,063
Vehicles	4,458,462	187,782	(151,298)	4,494,946
Machinery and Equipment	3,523,135	147,700	(38,125)	3,632,710
Furniture and Fixtures	618,423	19,300	(2,312)	635,411
Infrastructure				
Roads	20,588,738	0	0	20,588,738
Sanitary Sewers	3,274,217	0	0	3,274,217
Storm Sewers	1,171,516	0	0	1,171,516
Water Supply Lines	661,641	0	0	661,641
<i>Total Capital Assets, Being Depreciated</i>	<u>54,572,312</u>	<u>354,782</u>	<u>(219,739)</u>	<u>54,707,355</u>
<i>Less Accumulated Depreciation</i>				
Buildings	(3,229,832)	(353,695)	23,026	(3,560,501)
Improvements Other than Buildings	(1,257,178)	(131,279)	0	(1,388,457)
Vehicles	(1,877,128)	(333,746)	123,472	(2,087,402)
Machinery and Equipment	(1,841,531)	(298,773)	29,476	(2,110,828)
Furniture and Fixtures	(320,540)	(30,119)	1,494	(349,165)
Infrastructure				
Roads	(6,658,946)	(811,516)	0	(7,470,462)
Sanitary Sewers	(509,157)	(65,484)	0	(574,641)
Storm Sewers	(215,601)	(23,430)	0	(239,031)
Water Supply Lines	(68,552)	(13,233)	0	(81,785)
<i>Total Accumulated Depreciation</i>	<u>(15,978,465)</u>	<u>(2,061,275) *</u>	<u>177,468</u>	<u>(17,862,272)</u>
<i>Total Capital Assets being Depreciated, Net</i>	<u>38,593,847</u>	<u>(1,706,493)</u>	<u>(42,271)</u>	<u>36,845,083</u>
<i>Governmental Activities Capital Assets, Net</i>	<u>\$40,026,178</u>	<u>(\$1,651,921)</u>	<u>(\$44,807)</u>	<u>\$38,329,450</u>

**City of Garfield Heights, Ohio**  
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\* Depreciation expense was charged to governmental functions as follows:

General Government	\$484,767
Security of Persons and Property	379,035
Public Health Services	51,596
Transportation	903,924
Community Development	237
Basic Utility Services	128,400
Leisure Time Activities	<u>113,316</u>
Total Depreciation Expense	<u><u>\$2,061,275</u></u>

## **Note 9 - 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, 2003.

### ***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 10- Capital Leases**

The capital lease relates to a new fire truck acquired by the City. The City's lease obligation meets the criteria of a capital lease as defined by Statement of Financial Accounting Standards No. 13 "Accounting for Leases", and has been recorded on the government-wide statements. The equipment has been capitalized in the amount of \$333,565, the present value of the minimum lease payments at the inception of the lease. The book value as of December 31, 2003 was \$285,913. The remaining balance that will be paid in 2004 is \$169,514, of which \$2,198 represents interest and \$167,316 represents principal.

Capital lease payments have been reclassified and reflected as debt service in the fund financial statement for the general and street construction, maintenance and repair and federal nutrition special revenue funds.

**City of Garfield Heights, Ohio**  
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**Note 11 - Long-Term Obligations**

Changes in long-term obligations of the City during the year ended December 31, 2003 were as follows:

	Outstanding 12/31/2002	Additions	Reductions	Outstanding 12/31/2003	Amounts Due in One Year
<b>Governmental Activities</b>					
<b>General Obligation Bonds</b>					
1986 9.25% \$1,450,000					
Street Improvement	\$300,000	\$0	(\$75,000)	\$225,000	\$75,000
1994 4.05%-6.3% \$3,800,000					
Various Purpose Improvement	2,520,000	0	(150,000)	2,370,000	155,000
1996 4.7%-6.625% \$810,000					
Various Purpose - Canal Warner	30,400	0	(1,614)	28,786	1,614
1996 4.7%-6.625% \$610,000					
Various Purpose - Sunset	74,904	0	(3,823)	71,081	4,587
1996 4.7%-6.625% \$3,190,000					
Various Purpose - Streets	2,800,000	0	(140,000)	2,660,000	145,000
1998 3.65%-4.6% \$2,645,000					
Justice Center Refunding	2,025,000	0	(255,000)	1,770,000	265,000
1998 3.65%-4.6% \$3,775,000					
Civic Center Refunding	3,465,000	0	(185,000)	3,280,000	195,000
1998 3.6%-4.6% \$4,460,000					
Various Improvements	3,845,000	0	(175,000)	3,670,000	180,000
2002 1.09%-5.55% \$7,300,000					
Various Improvements	7,300,000	0	(100,000)	7,200,000	100,000
<i>Total General Obligation Bonds</i>	<u>22,360,304</u>	<u>0</u>	<u>(1,085,437)</u>	<u>21,274,867</u>	<u>1,121,201</u>
<b>Special Assessment Bonds</b>					
1986 7.75% \$230,000					
Johnston Rockside Improvement	48,000	0	(12,000)	36,000	12,000
1994 4.05%-6.3% \$606,000					
Neo Parkway Improvement	440,000	0	(25,000)	415,000	30,000
1996 4.7%-6.625% \$810,000					
Various Purpose - Canal Warner	629,600	0	(33,386)	596,214	33,387
1996 4.7%-6.625% \$610,000					
Various Purpose - Sunset	415,096	0	(21,177)	393,919	25,413
<i>Total Special Assessment Bonds</i>	<u>1,532,696</u>	<u>0</u>	<u>(91,563)</u>	<u>1,441,133</u>	<u>100,800</u>
<b>Other Governmental Activities</b>					
Compensated Absences Payable	3,978,697	462,523	(227,041)	4,214,179	98,021
Claims Payable	197,083	76,302	(121,981)	151,404	7,632
Police and Fire Pension Liability	702,436	0	(10,349)	692,087	10,794
Capital Leases Payable	333,565	0	(166,249)	167,316	167,316
<i>Total Other Governmental Activities</i>	<u>5,211,781</u>	<u>538,825</u>	<u>(525,620)</u>	<u>5,224,986</u>	<u>283,763</u>
<i>Total Governmental Activities</i>	<u>\$29,104,781</u>	<u>\$538,825</u>	<u>(\$1,702,620)</u>	<u>\$27,940,986</u>	<u>\$1,505,764</u>



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In 1986 the City issued \$1,450,000 in voted general obligation bonds for various street resurfacing maintenance projects. The bonds were issued for a twenty year period with a final maturity in 2006.

In 1994, the City issued \$3,800,000 in voted general obligation bonds for renovation of the fire station, recreation center roof project and the various street resurfacing maintenance projects. The bonds were issued for a twenty year period with a final maturity in 2014.

In 1996, the City issued \$810,000 in voted general obligation bonds for Canal/Warner sanitary sewer projects. The bonds were issued for a twenty year period with a final maturity in 2016.

In 1996, the City issued \$810,000 in voted special assessment bonds for Canal/Warner sanitary sewer projects. The bonds were issued for a twenty year period with a final maturity in 2016.

In 1996, the City issued \$610,000 in voted general obligation bonds for Sunset/Meadowbrook sanitary sewer projects. The bonds were issued for a nineteen year period with a final maturity in 2015.

In 1996, the City issued \$610,000 in voted special assessment bonds for Sunset/Meadowbrook sanitary sewer projects. The bonds were issued for a nineteen year period with a final maturity in 2015.

In 1996, the City issued \$3,190,000 in voted general obligation bonds for various street resurfacing maintenance projects. The bonds were issued for a twenty year period with a final maturity in 2016.

In 1998-1991 Refunder, the City issued \$3,775,000 in voted general obligation bonds for renovation, remodeling, and improving City Hall and other Municipal Buildings and the construction and equipping of the Civic/Senior Center. The bonds were issued for an eighteen year period with a final maturity in 2016.

In 1998-1989 Refunder, the City issued \$2,645,000 in voted general obligation bonds for various street resurfacing maintenance projects; renovation of City Hall and other Municipal Buildings; and the acquisition of Real Estate for Recreation Purposes. The bonds were issued for an eleven year period with a final maturity in 2009.

In 1998, the City issued \$4,460,000 in voted general obligation bonds for recreation of a new tennis courts and new ice rink chillers and compressors. Various street resurfacing maintenance projects; Granger Rd./ East 98<sup>th</sup> Intersection Widening Project. The bonds were issued for a twenty year period with a final maturity in 2018.

In 2002, the City issued \$7,300,000 in voted general obligation bonds for construction of the service center garage. The bonds were issued for a twenty-five year period with a final maturity in 2027.

In 1986, the City issued \$230,000 in voted special assessment bonds for Johnston Parkway/Rockside sanitary sewer projects. The bonds were issued for a twenty year period with a final maturity in 2006.

In 1994, the City issued \$606,000 in voted special assessment bonds for Neo Parkway sanitary sewer projects. The bonds were issued for a twenty year period with a final maturity in 2014.

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, federal nutrition, municipal court probation special revenue funds, and storm and sanitary sewer and municipal court capital improvement capital projects 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.

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The City's overall legal debt margin was \$21,304,118 at December 31, 2003. Principal and interest requirements to retire long-term obligations outstanding at December 31, 2003 are as follows:

	General Obligation Bonds		Special Assessment Bonds		Police and Fire Pension		Totals
	Principal	Interest	Principal	Interest	Principal	Interest	
2004	\$1,121,201	\$1,067,262	\$100,800	\$85,762	\$10,794	\$29,300	\$2,415,119
2005	1,161,201	1,017,978	100,800	80,210	11,258	28,836	2,400,283
2006	1,306,431	964,696	105,569	74,454	11,741	28,353	2,491,244
2007	1,277,196	904,590	102,805	68,370	12,245	27,849	2,393,055
2008	1,347,196	843,088	102,805	62,662	12,771	27,323	2,395,845
2009-2013	6,287,873	3,236,544	617,135	205,866	72,573	127,902	10,547,893
2014-2018	4,993,769	1,638,862	311,219	30,299	89,555	110,916	7,174,620
2019-2023	1,885,000	777,767	0	0	110,512	89,960	2,863,239
2024-2028	1,895,000	242,750	0	0	136,374	64,097	2,338,221
2029-2033	0	0	0	0	168,286	32,185	200,471
2034-2035	0	0	0	0	55,978	2,358	58,336
Totals	<u>\$21,274,867</u>	<u>\$10,693,537</u>	<u>\$1,441,133</u>	<u>\$607,623</u>	<u>\$692,087</u>	<u>\$569,079</u>	<u>\$35,278,326</u>

**Note 12 - 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 labor agreements for the Police, Firemen, Dispatchers and Jailers, and administrative employees of the City there is specific verbiage allowing the accrual 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 sell 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 statutory limits. At the time of separation, these employees are entitled to payment for any accumulated but unused overtime.

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

**City of Garfield Heights, Ohio**  
*Notes to the Basic Financial Statements*  
*For the Year Ended December 31, 2003*

**Note 13 - Note Debt**

The City's note activity for the year ended December 31, 2003 is as follows:

	Balance 12/31/02	Additions	Reductions	Balance 12/31/03
<b>Capital Projects Funds</b>				
<b>Street Resurfacing</b>				
1.97% Street Improvement	\$1,200,000	\$0	(\$1,200,000)	\$0
2.01% Street Improvement	900,000	0	(900,000)	0
1.75% Street Improvement	0	1,200,000	0	1,200,000
1.82% Street Improvement	0	900,000	0	900,000
<b>Various Improvement</b>				
2.01% Various Improvement	2,500,000	0	(2,500,000)	0
1.82% Various Improvement	0	2,840,000	0	2,840,000
1.82% Street Improvement	0	2,400,000	0	2,400,000
<b>Park Facilities</b>				
1.92% Park Facilities Improvement	700,000	0	(700,000)	0
1.75% Park Facilities Improvement	0	700,000	0	700,000
<i>Total Notes Payable</i>	<u>\$5,300,000</u>	<u>\$8,040,000</u>	<u>(\$5,300,000)</u>	<u>\$8,040,000</u>

In 2003, the City issued \$1,200,000, \$900,000 and \$2,400,000 in Street Improvement Notes to refinance the maintenance of City roads. These projects have been completed by December 31, 2001. These notes mature on August 27, 2004 and November 12, 2004.

In 2003, the City issued \$700,000 in Park Facilities Improvement Notes to finance the maintenance of City parks. This project has been completed by December 31, 2002. This note matures on November 12, 2004.

In 2003, the City issued \$2,840,000 in Various Improvement Notes to finance 2003 street resurfacing maintenance project, Rockside road improvement project; East 131<sup>st</sup>/Broadway Ave. Intersection widening project; Broadway Ave. sanitary sewer repair; justice renovation project; civic center security upgrade project; Mill Creek Quarries Repairian Project; and the City wide traffic signal update project (ODOT Agreement). As of December 31, 2003 the street resurfacing maintenance project has been completed; the remaining projects are outstanding. This note matures on August 27, 2004.

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

**Note 14 - Defined Benefit Pension Plans**

**A. Ohio Public Employees Retirement System**

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% 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,

**City of Garfield Heights, Ohio**  
*Notes to the Basic Financial Statements*  
*For the Year Ended December 31, 2003*

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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 member directed 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 E. Town St., Columbus, OH 43215-4642 or by calling (614) 222-6705.

For the year ended December 31, 2003, the members of all three plans, except those in law enforcement or public safety participating in the traditional plan, were required to contribute 8.5 percent of their annual covered salaries. Members participating in the traditional plan who were in law enforcement contributed 10.1 percent of their annual covered salary; members in public safety contributed 9 percent. The City's contribution rate for pension benefits for 2003 was 8.55 percent, except for those plan members in law enforcement or public safety. For those classifications, the City's pension contributions were 11.7 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, 2003, 2002, and 2001 were \$538,151, \$522,808, and \$536,246 respectively; 85.53 percent has been contributed for 2003 and 100 percent for 2002 and 2001. Contributions to the member-directed plan for 2003 were \$8,801 made by the City and \$5,521 made by the plan members.

***B. Ohio Police and Fire Pension Fund***

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

Plan members are required to contribute 10 percent of their annual covered salary to fund pension obligations while the City is required to contribute 11.75 percent for police officers and 16.25 percent for firefighters. Contributions are authorized by State statute. The City's contributions to the Fund for the years ended December 31, 2003, 2002, and 2001 were \$911,477, \$881,942, and \$848,745 respectively, equal to the required contributions for each year. The full amount has been contributed for 2002 and 2001. 89.84 percent has been contributed for 2003 with the remainder being reported as a liability.

**Note 15 – Postemployment Benefits**

***A. Ohio Public Employees Retirement System***

The Ohio Public Employees Retirement System (OPERS) provides postretirement health care coverage to age and service retirees with ten or more years of qualifying Ohio service credit with either the traditional

**City of Garfield Heights, Ohio**  
*Notes to the Basic Financial Statements*  
*For the Year Ended December 31, 2003*

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or combined plans. Health care coverage for disability recipients and primary survivor recipients is available. Members of the member-directed plan do not qualify for postretirement health care coverage. The health care coverage provided by the retirement system is considered an Other Postemployment Benefit as described in *GASB Statement No. 12*. A portion of each employer's contribution to the traditional or combined plans is set aside for the funding of postretirement health care based on authority granted by State statute. The 2003 local government employer contribution rate was 13.55 percent of covered payroll (16.7 percent for public safety and law enforcement); 5.00 percent of covered payroll was the portion that was used to fund health care.

Benefits are advance-funded using the entry age normal actuarial cost method. Significant actuarial assumptions, based on OPERS's latest actuarial review performed as of December 31, 2002, include a rate of return on investments of 8.00 percent, an annual increase in active employee total payroll of 4.00 percent compounded annually (assuming no change in the number of active employees) and an additional increase in total payroll of between .50 percent and 6.3 percent based on additional annual pay increases. Health care premiums were assumed to increase 4.00 percent annually.

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

The number of active contributing participants in the traditional and combined plans was 364,881. Actual employer contributions for 2003 which were used to fund postemployment benefits were \$314,708. The actual contribution and the actuarially required contribution amounts are the same. OPERS's net assets available for payment of benefits at December 31, 2002, (the latest information available) were \$10.0 billion. The actuarially accrued liability and the unfunded actuarial accrued liability were \$18.7 billion and \$8.7 billion, respectively.

In December 2001, the Board adopted the Health Care "Choices" Plan. The Choices Plan will be offered to all persons newly hired in an OPERS covered position after January 1, 2003, with no prior service credit accumulated toward health care coverage. Choices will incorporate a cafeteria approach, offering a broader range of health care options. The Plan uses a graded scale from ten to thirty years to calculate a monthly health care benefit. This is in contrast to the ten-year "cliff" eligibility standard for the present Plan.

The benefit recipient will be free to select the option that best meets their needs. Recipients will fund health care costs in excess of their monthly health care benefit. The Plan will also offer a spending account feature, enabling the benefit recipient to apply their allowance toward specific medical expenses, much like a Medical Spending Account.

***B. Ohio Police and Fire Pension Fund***

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

The health care coverage provided by the retirement system is considered an Other Postemployment Benefit (OPEB) as described in *GASB Statement No. 12*. The Ohio Revised Code provides the authority allowing the Ohio Police and Fire Pension Fund's board of trustees to provide health care coverage and

**City of Garfield Heights, Ohio**  
*Notes to the Basic Financial Statements*  
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states that health care costs paid from the funds of OP&F shall be included in the employer's contribution rate. Health care funding and accounting is on a pay-as-you-go basis. The total police employer contribution rate is 19.5 percent of covered payroll and the total firefighter employer contribution rate is 24 percent of covered payroll, of which 7.75 percent of covered payroll was applied to the postemployment health care program during 2003. In addition, since July 1, 1992, most retirees have been required to contribute a portion of the cost of their health care coverage through a deduction from their monthly benefit payment. Beginning in 2001, all retirees and survivors have monthly health care contributions.

The City's actual contributions for 2003 that were used to fund postemployment benefits were \$301,526 for police and \$216,678 for firefighters. The OP&F's total health care expense for the year ended December 31, 2002, (the latest information available) was \$141,028,006, which was net of member contributions of \$12,623,875. The number of OP&F participants eligible to receive health care benefits as of December 31, 2002, was 13,527 for police and 10,396 for firefighters.

**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 2003, the City contracted with Clarendon Insurance Company for various types of insurance as follows:

Type	Coverage
Property	\$28,312,066
Inland Marine	2,000,000
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	1,000,000 per occurrence

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

The City manages employee health benefits on a self-insured basis. The employee health benefit plan provides basic hospital/medical/surgical plans with deductibles of \$100 per person and \$200 per family, with maximum out of pocket expenses, not including the deductibles, of \$500 per individual and the family. Mutual of Ohio reviews all claims which are then paid by the City. An excess coverage insurance (stop-loss) policy covers claims in excess of \$100,000 per employee and an aggregate of \$1,678,920 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 \$215,670 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, 2003 is based on the requirements of Governmental Accounting Standards Board Statement No. 30, which requires that a liability for unpaid

**City of Garfield Heights, Ohio**  
*Notes to the Basic Financial Statements*  
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claims costs, including estimates of costs relating to incurred but not reported claims, be reported. The estimate was not affected by incremental claim adjustment expenses and does not include other allocated or unallocated claim adjustment expense.

The City participates in the State Workers' Compensation retrospective rating and payment system. This plan involves the payment of a minimum premium for administrative services and stop-loss coverage plus the actual claim costs for employees injured in 2003. Claims of \$151,404 have been accrued as a liability at December 31, 2003 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 2002 and 2003 were:

	Balance Beginning of Year	Current Year Claims	Claim Payments	Balance at End of Year
2002	\$375,796	1,171,935	\$1,156,801	\$390,930
2003	390,930	1,129,074	1,152,930	367,074

**Note 17 – Interfund Transfers and Balances**

**A. Interfund Transfers**

Transfer To	Transfer From				Totals
	General	Bond Retirement	Motor Vehicle License Tax	Storm and Sanitary Sewer	
Bond Retirement	\$0	\$0	\$182,000	\$175,000	\$357,000
Various Improvements	0	50,250	0	0	50,250
Other Governmental Funds:					
Street Resurfacing	0	41,730	0	0	41,730
Park Facilities	0	12,955	0	0	12,955
Police Pension	634,205	0	0	0	634,205
Fire Pension	546,649	0	0	0	546,649
Recreation	35,000	0	0	0	35,000
Street Construction					
Maintenance and Repair	85,000	0	0	0	85,000
Federal Nutrition	132,000	0	0	0	132,000
Law Block Grant	1,823	0	0	0	1,823
<b>Totals</b>	<b>\$1,434,677</b>	<b>\$104,935</b>	<b>\$182,000</b>	<b>\$175,000</b>	<b>\$1,896,612</b>

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 2003, the general fund transferred \$1,434,677 to various other funds. Of this total \$634,205 and \$546,649 was transferred to the police and fire pension funds, respectively. 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

**City of Garfield Heights, Ohio**  
*Notes to the Basic Financial Statements*  
*For the Year Ended December 31, 2003*

revenues that were earmarked by the voters for the payment of the 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. Another transfer from the general fund was a transfer of \$1,823 to the law enforcement block grant special revenue fund. This transfer represents the City's 10 percent portion or cash match for the federal funds received through this grant program. The remaining general fund transfers: \$35,000 to the recreation special revenue fund; \$85,000 to the street construction maintenance & repair special revenue fund; and \$132,000 to the federal nutrition special revenue fund were all necessitated because those individual funds did not generate enough revenue to support the activities being charged to those particular funds.

During 2003, the bond retirement debt service fund transferred out \$104,935 to various capital project funds. In reality these transfers really came from the debt amortization fund which is combined with the bond retirement debt service fund, for GAAP purposes. Those individual transfers were: \$12,955 to the park facilities capital projects fund; \$41,730 to the street resurfacing capital projects fund; and \$50,250 to the various improvement capital projects fund. These note funds are established to handle all revenues and expenditures for various capital projects. The transferred amount indicates the amount of interest due on the bank note borrowed to fund the project during construction.

During 2003, the motor vehicle license tax special revenue fund and the storm and sanitary sewer capital projects fund transferred \$182,000 and \$175,000, respectively, to the bond retirement debt service fund to cover their portion of the bond retirement.

**B. Interfund Balances**

Interfund Payable	Interfund Receivable		
	Various Improvement	Park Facilities	Totals
General	\$645,152	\$89,291	\$734,443
Other Governmental Funds:			
Recreation	69,874	0	69,874
Street Construction Maintenance and Repair	312,429	0	312,429
Federal Nutrition	157,023	0	157,023
Totals	\$1,184,478	\$89,291	\$1,273,769

The interfund transfers were the result of deficit cash balances at year end.

**Note 18 - 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 over 100 communities who have been authorized by ballot to purchase electricity on behalf of their citizens. The intent of NOPEC is to provide electricity at the lowest possible rates while at the same time insuring stability in prices by entering into long-term contracts with suppliers to provide electricity to the citizens of its member communities.



**City of Garfield Heights, Ohio**  
*Notes to the Basic Financial Statements*  
*For the Year Ended December 31, 2003*

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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 2003. Financial information can be obtained by contacting the Board Chairman at 35150 Lakeshore Boulevard, Eastlake, Ohio 44095.

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

The Council is governed by an Assembly made up of one representative from each member community. The representatives then elect the Governing Board made up of a Chair, Vice Chair and other members elected in annual elections. The Board oversees and manages the Council. The degree of control exercised by any participating government is limited to its representation in the Assembly and on the Board. During 2003, the City of Garfield Heights did not contribute to the First Suburbs Consortium. Financial information can be obtained by contacting First Suburbs Consortium of Northeast Ohio Council of Governments, 40 Severance Circle, Cleveland Heights, Ohio 44118.

**Note 19 – Subsequent Event**

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, 2003. To alleviate the financial shortfall the City has developed a strategy to stabilize its cash shortfall in the aforementioned funds. In April 2004, the City Council approved the final legislation for the lease of two additional billboards along Interstate I-480, on City owned land, for a price of \$600,000 each. This new revenue will be used to offset the negative balances in the various City funds. The new \$1,200,000 revenue represented by these lease agreements is expected to be received during June 2004 by the City.

**City of Garfield Heights, Ohio**  
*Notes to the Basic Financial Statements*  
*For the Year Ended December 31, 2003*

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**Auditor of State  
Betty Montgomery**

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

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

We have audited the financial statements of the City of Garfield Heights, Cuyahoga County, Ohio, (the City) as of and for the year ended December 31, 2003, and have issued our report thereon dated June 9, 2004, wherein we noted the City experienced financial difficulties which resulted in deficit fund balances in the General Fund, Various Improvement Fund and less significant funds. We conducted our audit in accordance auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

**Compliance**

As part of obtaining reasonable assurance about whether the City's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance that are required to be reported under *Government Auditing Standards* which are described in the accompanying schedule of findings as items 2003-001, 2003-002 and 2003-003. We also noted certain immaterial instances of noncompliance that we have reported to management of the City in a separate letter dated June 9, 2004.

**Internal Control Over Financial Reporting**

In planning and performing our audit, we considered the City's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the City's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. The reportable condition is described in the accompanying schedule of findings as item 2003-004.

**Internal Control Over Financial Reporting  
(Continued)**

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe the reportable condition describe above is a material weakness. We also noted other matters involving the internal control over financial reporting that do not require inclusion in this report, that we have reported to management of the City in a separate letter dated June 9, 2004.

This report is intended for the information and use of management and City Council, and is not intended to be and should not be used by anyone other than these specified parties.



**Betty Montgomery**  
Auditor of State

June 9, 2004

**CITY OF GARFIELD HEIGHTS  
CUYAHOGA COUNTY  
DECEMBER 31, 2003**

**SCHEDULE OF FINDINGS**

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

**FINDING NUMBER** **2003-001**

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

Fund/Program/Activity	Appropriations	Expenditures Plus Encumbrances	Excess
<b>August</b>			
General Fund			
<i>General Government</i>			
Executive –Mayor			
Training & Education	\$2,000	\$2,855	\$855
Lands & Buildings			
Advertising/Printing	100	1,552	1,452
Permanent Improvement Fund			
<i>Capital Outlay</i>			
Equipment Capital Outlay	200,000	225,387	25,387
Recreation Fund			
<i>Leisure Time Activities</i>			
Utilities	1,700	2,033	333
<b>October</b>			
General Fund			
<i>General Government</i>			
Administrative Support			
Office Supplies	1,000	1,299	299
Economic Development			
Advertising/Printing	0	691	691
Operating Supplies	500	1,145	645
<i>Security of Persons and Property</i>			
General Law Enforcement			
Operating Supplies	30,000	35,259	5,259
Fire Prevention			
Operating Supplies	72,500	89,303	16,803
Various Improvement Note – 2003 Fund			
<i>General Government</i>			
Contractual Services			
Special Services	0	627,523	627,523

**CITY OF GARFIELD HEIGHTS  
CUYAHOGA COUNTY  
DECEMBER 31, 2003**

**SCHEDULE OF FINDINGS  
(CONTINUED)**

<b>FINDING RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS</b>
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<b>FINDING NUMBER</b>	<b>2003-001</b>
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Fund/Program/Activity	Appropriations	Expenditures Plus Encumbrance	Excess
<b>December</b>			
Recreation Fund			
Leisure Time Activities			
Contractual Services	160,232	177,271	17,039
Federal Nutrition Fund			
Public Health & Welfare			
Personal Services	268,287	343,574	75,287

This weakness could allow expenditures in the above funds to exceed the total of the available fund balance and the current year revenues. This would then result in a negative fund balance(s).

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

<b>FINDING NUMBER</b>	<b>2003-002</b>
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Ohio Rev. Code Sections 5705.10, requires money paid into a fund shall be used for only the purposes for which such fund is established. As a result, a negative fund balance indicates that money from one fund was used to cover the expenses of another fund. The following funds had a deficit fund balance as of December 31, 2003.

<i>General Fund</i>	\$734,443
<i>Special Revenue Funds</i>	
Recreation Fund	69,874
Street Maintenance and Repair Fund	312,429
Federal Nutrition Fund	157,023

Additionally, throughout the year, the City had funds with negative cash balances that ranged from \$1,477 to \$1,068,304.

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

**CITY OF GARFIELD HEIGHTS  
CUYAHOGA COUNTY  
DECEMBER 31, 2003**

**SCHEDULE OF FINDINGS  
(CONTINUED)**

<b>FINDING RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS</b>
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<b>FINDING NUMBER</b>
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<b>2003-003</b>
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Ohio Rev. Code Section 5705.41(D) states no orders or contracts involving the expenditure of money are to be made unless there is attached a certificate of the fiscal officer that the amount required for the order or contract has been lawfully appropriated and is in the treasury or in the process of collection to the credit of an appropriate fund free from any previous encumbrances.

The following exception to this basic requirement is provided by statute:

*Then and Now Certificate:* This exception provides that, if the fiscal officer can certify that both at the time the contract or order was made and at the time that he is completing his certification, sufficient funds were available or in the process of collection, to the credit of a proper fund, properly appropriated and free from any previous encumbrance, the taxing authority can authorize the drawing of a warrant. The taxing authority has 30 days from the receipt of such certificate to approve payment by resolution or ordinance. If approval is not made within 30 days, there is no legal liability on the part of the subdivision or taxing district.

Amounts less than \$1,000 (which was increased to \$3,000 on April 7, 2003), may be paid by the fiscal officer without such affirmation of the taxing authority upon completion of the "then and now" certificate, provided that the expenditure is otherwise lawful. This does not eliminate any otherwise applicable requirement for approval of expenditures by the taxing authority.

The City did not always comply with the aforementioned Revised Code Section. Twenty-nine of the sixty transactions tested (48%) had the invoice dated prior to the certification. Post certification was not applied through the conventions of the "then and now" certification.

We recommend the City properly certify the availability of funds for any orders or contracts involving the expenditure of money to ensure compliance with this requirement. Any purchase that falls out of this procedure should be reviewed under the "then and now" criteria.

<b>FINDING NUMBER</b>
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<b>2003-004</b>
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**Recording of Encumbrances**

Although outstanding encumbrances are reported on the City's Financial Statements, at year end, management does not record encumbrances during the year. The recording of encumbrances serves as a spending control and a measurement tool.

We recommend all purchase commitments be properly and timely encumbered.

**CITY OF GARFIELD HEIGHTS  
CUYAHOGA COUNTY  
DECEMBER 31, 2003**

**SCHEDULE OF PRIOR AUDIT FINDINGS**

<b>Finding Number</b>	<b>Finding Summary</b>	<b>Fully Corrected?</b>	<b>Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; Explain:</b>
2002-001	Ohio Revised Code Section 5705.41(B)	No	Not Corrected - Reissued
2002-002	Ohio Revised Code Section 5705.41(B) (D)	No	Not Corrected - Reissued
2002-003	Ohio Revised Code Section 5705.10	No	Not Corrected - Reissued
2002-004	Ohio Revised Code Section 5705.39	No	Partially Corrected – Reissued as Management letter comment
2002-005	Report encumbrances during the year.	No	Not Corrected – Reissued



**CITY OF GARFIELD HEIGHTS  
CUYAHOGA COUNTY  
DECEMBER 31, 2003**

**CORRECTIVE ACTION PLAN**

<b>Finding Number</b>	<b>Planned Corrective Action</b>	<b>Anticipated Completion Date</b>	<b>Responsible Contact Person</b>
2003-001	City to compare appropriations to expenditures on a monthly basis.	December 31, 2004	Richard W. Obert, Finance Director
2003-002	City to make advances and transfers to avoid deficit fund balances.	December 31, 2004	Richard W. Obert, Finance Director
2003-003	City to timely certify the availability of funds.	December 31, 2004	Richard W. Obert, Finance Director
2003-004	City does not plan to report encumbrances.	N/A	Richard W. Obert, Finance Director





**Auditor of State  
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**CITY OF GARFIELD HEIGHTS**

**CUYAHOGA COUNTY**

**CLERK'S CERTIFICATION**

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

*Susan Babbitt*

**CLERK OF THE BUREAU**

**CERTIFIED  
AUGUST 12, 2004**