



**CITY OF EAST CLEVELAND  
CUYAHOGA COUNTY**

**SINGLE AUDIT**

**FOR THE YEAR ENDED DECEMBER 31, 2001**



**Auditor of State  
Betty Montgomery**



**CITY OF EAST CLEVELAND  
CUYAHOGA COUNTY**

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**Auditor of State  
Betty Montgomery**

**INDEPENDENT ACCOUNTANTS' REPORT**

Members of City Council  
City of East Cleveland  
Cuyahoga County  
14340 Euclid Avenue  
East Cleveland, Ohio 44112

We have audited the accompanying general-purpose financial statements of the City of East Cleveland, Cuyahoga County, Ohio, (the City) as of and for the year ended December 31, 2001, as listed in the table of contents. These general-purpose financial statements are the responsibility of the City's management. Our responsibility is to express an opinion on these general-purpose financial statements based on our audit.

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

In our opinion, the general-purpose financial statements referred to above present fairly, in all material respects, the financial position of the City of East Cleveland, Cuyahoga County, Ohio, as of December 31, 2001, and the results of its operations and the cash flows of its proprietary fund type for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated February 7, 2005 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.

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

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

**Betty Montgomery**  
Auditor of State

February 7, 2005

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**City of East Cleveland, Ohio**  
*Combined Balance Sheet*  
*All Fund Types and Account Groups*  
*December 31, 2001*

	Governmental Fund Types			
	General	Special Revenue	Debt Service	Capital Projects
<b>Assets and Other Debits</b>				
<b>Assets</b>				
Equity in Pooled Cash and Cash Equivalents	\$5,225	\$1,837,124	\$11,740	\$357,549
Cash and Cash Equivalents in Segregated Accounts	0	98,204	0	0
Cash and Cash Equivalents with Fiscal and Escrow Agents	0	0	3,282	0
Receivables:				
Taxes	5,601,428	118,132	0	393,746
Accounts	100,939	218	0	0
Interfund	1,906,699	0	0	625,987
Intergovernmental	2,173,065	4,901,578	0	0
Materials and Supplies Inventory	14,436	3,737	0	0
Prepaid Items	3,367	0	0	0
Fixed Assets (Net, where applicable, of Accumulated Depreciation)	0	0	0	0
<b>Other Debits</b>				
Amount Available in Debt Service Fund for Retirement of General Obligation Bonds	0	0	0	0
Amount to be Provided from General Government Resources	0	0	0	0
<b>Total Assets and Other Debits</b>	<b>\$9,805,159</b>	<b>\$6,958,993</b>	<b>\$15,022</b>	<b>\$1,377,282</b>



Proprietary Fund Type	Fiduciary Fund Type	Account Groups		Totals (Memorandum Only)
		General Fixed Assets	General Long-Term Obligations	
Enterprise	Agency			
\$0	\$457,278	\$0	\$0	\$2,668,916
0	363,079	0	0	461,283
0	0	0	0	3,282
0	0	0	0	6,113,306
4,006,102	0	0	0	4,107,259
0	0	0	0	2,532,686
0	0	0	0	7,074,643
0	0	0	0	18,173
0	0	0	0	3,367
6,828,176	0	10,796,715	0	17,624,891
0	0	0	15,022	15,022
0	0	0	4,976,390	4,976,390
<u>\$10,834,278</u>	<u>\$820,357</u>	<u>\$10,796,715</u>	<u>\$4,991,412</u>	<u>\$45,599,218</u>

**City of East Cleveland, Ohio**  
*Combined Balance Sheet*  
*All Fund Types and Account Groups (continued)*  
*December 31, 2001*

	Governmental Fund Types			
	General	Special Revenue	Debt Service	Capital Projects
<b>Liabilities, Fund Equity and Other Credits</b>				
<b>Liabilities</b>				
Accounts Payable	\$357,125	\$56,113	\$0	\$6,563
Interfund Payable	0	780,273	0	0
Accrued Wages	360,444	76,082	0	0
Compensated Absences Payable	89,005	2,191	0	0
Claims Payable	5,785	150	0	0
Intergovernmental Payable	90,569	6,773	0	0
Deferred Revenue	7,014,682	3,924,014	0	393,746
Undistributed Monies	0	0	0	0
Deposits Held and Due to Others	0	0	0	0
Capital Leases Payable	0	0	0	0
OPWC Loans Payable	0	0	0	0
Police and Fire Liability	0	0	0	0
<i>Total Liabilities</i>	7,917,610	4,845,596	0	400,309
<b>Fund Equity and Other Credits</b>				
Investment in General Fixed Assets	0	0	0	0
Contributed Capital	0	0	0	0
Retained Earnings	0	0	0	0
Fund Balance:				
Reserved for Encumbrances	176,213	345,564	0	11,604
Reserved for Inventory	14,436	3,737	0	0
Unreserved, Undesignated	1,696,900	1,764,096	15,022	965,369
<i>Total Fund Equity and Other Credits</i>	1,887,549	2,113,397	15,022	976,973
<i>Total Liabilities, Fund Equity and Other Credits</i>	\$9,805,159	\$6,958,993	\$15,022	\$1,377,282

See accompanying notes to the general purpose financial statements

Proprietary Fund Type	Fiduciary Fund Types	Account Groups		Totals (Memorandum Only)
		General Fixed Assets	General Long-Term Obligations	
Enterprise	Agency			
\$600,648	\$0	\$0	\$450,000	\$1,470,449
1,752,413	0	0	0	2,532,686
25,140	0	0	0	461,666
19,755	0	0	1,745,138	1,856,089
0	0	0	0	5,935
2,542	0	0	619,904	719,788
0	0	0	0	11,332,442
0	363,079	0	0	363,079
0	457,278	0	0	457,278
0	0	0	515,633	515,633
575,683	0	0	0	575,683
0	0	0	1,660,737	1,660,737
<u>2,976,181</u>	<u>820,357</u>	<u>0</u>	<u>4,991,412</u>	<u>21,951,465</u>
0	0	10,796,715	0	10,796,715
7,832,733	0	0	0	7,832,733
25,364	0	0	0	25,364
0	0	0	0	533,381
0	0	0	0	18,173
0	0	0	0	4,441,387
<u>7,858,097</u>	<u>0</u>	<u>10,796,715</u>	<u>0</u>	<u>23,647,753</u>
<u>\$10,834,278</u>	<u>\$820,357</u>	<u>\$10,796,715</u>	<u>\$4,991,412</u>	<u>\$45,599,218</u>

**City of East Cleveland, Ohio**  
*Combined Statement of Revenues, Expenditures  
and Changes in Fund Balances  
All Governmental Fund Types  
For the Year Ended December 31, 2001*

	Governmental Fund	
	General	Special Revenue
<b>Revenues</b>		
Municipal Income Taxes	\$7,563,408	\$0
Property and Other Taxes	1,708,479	101,086
Charges for Services	464,802	447,766
Licenses and Permits	514,912	64,430
Fines and Forfeitures	593,427	21,892
Intergovernmental	4,307,061	5,015,703
Special Assessments	407,300	0
Interest	116,369	20,687
Other	569,314	22,801
	<u>16,245,072</u>	<u>5,694,365</u>
<i>Total Revenues</i>		
<b>Expenditures</b>		
Current:		
General Government	5,711,228	1,903,046
Security of Persons and Property	8,294,954	1,025,472
Public Health and Welfare	0	32,092
Transportation	715,521	484,111
Community Environment	345,233	1,235,369
Basic Utility Services	1,261,234	0
Leisure Time Activities	363,659	0
Capital Outlay	0	563,948
Debt Service:		
Principal Retirement	10,846	85,319
Interest and Fiscal Charges	4,030	97,391
	<u>16,706,705</u>	<u>5,426,748</u>
<i>Total Expenditures</i>		
<i>Excess of Revenues Over (Under) Expenditures</i>	<u>(461,633)</u>	<u>267,617</u>
<b>Other Financing Sources (Uses)</b>		
Operating Transfers In	0	624,026
Operating Transfers Out	(1,267,601)	0
	<u>(1,267,601)</u>	<u>624,026</u>
<i>Total Other Sources (Uses)</i>		
<i>Excess of Revenues and Other Financing Sources Over (Under) Expenditures and Other Financing Uses</i>	<u>(1,729,234)</u>	<u>891,643</u>
<i>Fund Balances Beginning of Year (Restated - Note 3)</i>	3,615,968	1,221,171
Increase in Reserve for Inventory	<u>815</u>	<u>583</u>
<i>Fund Balances End of Year</i>	<u>\$1,887,549</u>	<u>\$2,113,397</u>

See accompanying notes to the general purpose financial statements

Types		Totals (Memorandum Only)
Debt Service	Capital Projects	
\$0	\$0	\$7,563,408
0	336,955	2,146,520
0	0	912,568
0	0	579,342
0	0	615,319
0	289,279	9,612,043
0	0	407,300
180	3,995	141,231
0	0	592,115
<u>180</u>	<u>630,229</u>	<u>22,569,846</u>
0	0	7,614,274
0	0	9,320,426
0	0	32,092
0	0	1,199,632
0	0	1,580,602
0	0	1,261,234
0	0	363,659
0	867,232	1,431,180
7,411	20,199	123,775
0	6,135	107,556
<u>7,411</u>	<u>893,566</u>	<u>23,034,430</u>
<u>(7,231)</u>	<u>(263,337)</u>	<u>(464,584)</u>
0	225,000	849,026
0	0	(1,267,601)
<u>0</u>	<u>225,000</u>	<u>(418,575)</u>
(7,231)	(38,337)	(883,159)
22,253	1,015,310	5,874,702
<u>0</u>	<u>0</u>	<u>1,398</u>
<u>\$15,022</u>	<u>\$976,973</u>	<u>\$4,992,941</u>

**City of East Cleveland, Ohio**  
*Combined Statement of Revenues, Expenditures and  
Changes in Fund Balances - Budget (Non-GAAP Basis) and Actual  
All Governmental Fund Types  
For the Year Ended December 31, 2001*

	General Fund			
	Original Budget	Final Budget	Actual	Variance Favorable (Unfavorable)
<b>Revenues</b>				
Municipal Income Taxes	\$7,599,920	\$7,583,383	\$7,912,847	\$329,464
Property and Other Taxes	2,091,831	2,091,831	1,710,758	(381,073)
Charges for Services	592,000	592,000	521,562	(70,438)
Licenses and Permits	536,000	536,000	420,983	(115,017)
Fines and Forfeitures	729,141	729,141	590,372	(138,769)
Intergovernmental	4,672,340	4,672,340	4,320,770	(351,570)
Special Assessments	189,000	189,000	407,300	218,300
Interest	187,469	187,469	111,144	(76,325)
Other	1,283,800	1,283,800	570,374	(713,426)
<i>Total Revenues</i>	<u>17,881,501</u>	<u>17,864,964</u>	<u>16,566,110</u>	<u>(1,298,854)</u>
<b>Expenditures</b>				
Current:				
General Government	5,622,483	6,222,483	5,791,985	430,498
Security of Persons and Property	8,477,388	8,477,388	8,455,759	21,629
Public Health and Welfare	0	0	0	0
Transportation	738,235	738,235	737,002	1,233
Community Environment	335,102	335,102	333,752	1,350
Basic Utility Services	1,922,273	1,922,273	1,400,450	521,823
Leisure Time Activities	369,454	369,454	365,310	4,144
Capital Outlay	0	0	0	0
Debt Service:				
Principal Retirement	0	0	0	0
<i>Total Expenditures</i>	<u>17,464,935</u>	<u>18,064,935</u>	<u>17,084,258</u>	<u>980,677</u>
<i>Excess of Revenues Over (Under) Expenditures</i>	<u>416,566</u>	<u>(199,971)</u>	<u>(518,148)</u>	<u>(318,177)</u>
<b>Other Financing Sources (Uses)</b>				
Advances In	0	0	849,829	849,829
Advances Out	0	0	0	0
Operating Transfers In	0	0	0	0
Operating Transfers Out	(1,554,567)	(1,554,567)	(1,267,601)	286,966
<i>Total Other Sources (Uses)</i>	<u>(1,554,567)</u>	<u>(1,554,567)</u>	<u>(417,772)</u>	<u>1,136,795</u>
<i>Excess of Revenues and Other Financing Sources Over (Under) Expenditures and Other Financing Uses</i>	<u>(1,138,001)</u>	<u>(1,754,538)</u>	<u>(935,920)</u>	<u>818,618</u>
<i>Fund Balances Beginning of Year</i>	2,162,969	2,162,969	2,162,969	0
Prior Year Encumbrances Appropriated	384,675	384,675	384,675	0
<i>Fund Balances (Deficit) End of Year</i>	<u>\$1,409,643</u>	<u>\$793,106</u>	<u>\$1,611,724</u>	<u>\$818,618</u>

Special Revenue Funds				Debt Service Funds			
Original Budget	Final Budget	Actual	Variance Favorable (Unfavorable)	Original Budget	Final Budget	Actual	Variance Favorable (Unfavorable)
\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
117,436	117,437	101,086	(16,351)	0	0	0	0
714,501	729,501	447,548	(281,953)	0	0	0	0
121,000	121,000	64,430	(56,570)	0	0	0	0
30,000	30,000	21,892	(8,108)	0	0	0	0
9,866,117	10,784,437	3,950,229	(6,834,208)	0	0	0	0
0	0	0	0	0	0	0	0
0	0	6,697	6,697	1	1	180	179
10,003	10,003	22,801	12,798	0	0	0	0
10,859,057	11,792,378	4,614,683	(7,177,695)	1	1	180	179
3,609,091	3,611,792	2,236,947	1,374,845	0	0	0	0
1,749,030	1,812,731	1,082,343	730,388	0	0	0	0
51,999	51,999	14,098	37,901	0	0	0	0
739,663	739,663	505,806	233,857	0	0	0	0
3,356,254	3,819,302	1,387,934	2,431,368	0	0	0	0
0	0	0	0	0	0	0	0
480	480	0	480	0	0	0	0
2,268,362	2,781,222	655,638	2,125,584	0	0	0	0
0	0	0	0	18,716	18,716	7,411	11,305
11,774,879	12,817,189	5,882,766	6,934,423	18,716	18,716	7,411	11,305
(915,822)	(1,024,811)	(1,268,083)	(243,272)	(18,715)	(18,715)	(7,231)	11,484
50,000	50,000	0	(50,000)	0	0	0	0
(839,995)	(860,961)	(849,829)	11,132	0	0	0	0
386,967	386,967	624,026	237,059	0	0	0	0
(256)	(256)	0	256	0	0	0	0
(403,284)	(424,250)	(225,803)	198,447	0	0	0	0
(1,319,106)	(1,449,061)	(1,493,886)	(44,825)	(18,715)	(18,715)	(7,231)	11,484
1,472,987	1,679,701	1,679,701	0	18,971	18,971	18,971	0
430,221	427,615	427,615	0	0	0	0	0
\$584,102	\$658,255	\$613,430	(\$44,825)	\$256	\$256	\$11,740	\$11,484

(continued)

**City of East Cleveland, Ohio**  
*Combined Statement of Revenues, Expenditures and  
Changes in Fund Balances - Budget (Non-GAAP Basis) and Actual*  
All Governmental Fund Types (continued)  
For the Year Ended December 31, 2001

	Capital Projects Funds			
	Original Budget	Final Budget	Actual	Variance Favorable (Unfavorable)
<b>Revenues</b>				
Municipal Income Taxes	\$0	\$0	\$0	\$0
Property and Other Taxes	377,386	377,386	336,954	(40,432)
Charges for Services	0	0	0	0
Licenses and Permits	0	0	0	0
Fines and Forfeitures	0	0	0	0
Intergovernmental	50,000	287,620	289,279	1,659
Special Assessments	0	0	0	0
Interest	15,000	15,001	3,995	(11,006)
Other	0	0	0	0
<i>Total Revenues</i>	<u>442,386</u>	<u>680,007</u>	<u>630,228</u>	<u>(49,779)</u>
<b>Expenditures</b>				
Current:				
General Government	0	0	0	0
Security of Persons and Property	0	0	0	0
Public Health and Welfare	0	0	0	0
Transportation	0	0	0	0
Community Environment	0	0	0	0
Basic Utility Services	0	0	0	0
Leisure Time Activities	0	0	0	0
Capital Outlay	1,899,491	1,899,491	1,052,048	847,443
Debt Service:				
Principal Retirement	0	0	0	0
<i>Total Expenditures</i>	<u>1,899,491</u>	<u>1,899,491</u>	<u>1,052,048</u>	<u>847,443</u>
<i>Excess of Revenues Over (Under) Expenditures</i>	<u>(1,457,105)</u>	<u>(1,219,484)</u>	<u>(421,820)</u>	<u>797,664</u>
<b>Other Financing Sources (Uses)</b>				
Advances In	0	0	0	0
Advances Out	0	0	0	0
Operating Transfers In	226,107	226,107	225,000	(1,107)
Operating Transfers Out	0	0	0	0
<i>Total Other Sources (Uses)</i>	<u>226,107</u>	<u>226,107</u>	<u>225,000</u>	<u>(1,107)</u>
<i>Excess of Revenues and Other Financing Sources Over (Under) Expenditures and Other Financing Uses</i>	<u>(1,230,998)</u>	<u>(993,377)</u>	<u>(196,820)</u>	<u>796,557</u>
<i>Fund Balances Beginning of Year</i>	887,671	997,545	997,550	(5)
Prior Year Encumbrances Appropriated	167,385	167,385	167,385	0
<i>Fund Balances (Deficit) End of Year</i>	<u>(\$175,942)</u>	<u>\$171,553</u>	<u>\$968,115</u>	<u>\$796,552</u>

See accompanying notes to the general purpose financial statements



Totals (Memorandum Only)			
Original Budget	Final Budget	Actual	Variance Favorable (Unfavorable)
\$7,599,920	\$7,583,383	\$7,912,847	\$329,464
2,586,653	2,586,654	2,148,798	(437,856)
1,306,501	1,321,501	969,110	(352,391)
657,000	657,000	485,413	(171,587)
759,141	759,141	612,264	(146,877)
14,588,457	15,744,397	8,560,278	(7,184,119)
189,000	189,000	407,300	218,300
202,470	202,471	122,016	(80,455)
1,293,803	1,293,803	593,175	(700,628)
<u>29,182,945</u>	<u>30,337,350</u>	<u>21,811,201</u>	<u>(8,526,149)</u>
9,231,574	9,834,275	8,028,932	1,805,343
10,226,418	10,290,119	9,538,102	752,017
51,999	51,999	14,098	37,901
1,477,898	1,477,898	1,242,808	235,090
3,691,356	4,154,404	1,721,686	2,432,718
1,922,273	1,922,273	1,400,450	521,823
369,934	369,934	365,310	4,624
4,167,853	4,680,713	1,707,686	2,973,027
<u>18,716</u>	<u>18,716</u>	<u>7,411</u>	<u>11,305</u>
<u>31,158,021</u>	<u>32,800,331</u>	<u>24,026,483</u>	<u>8,773,848</u>
<u>(1,975,076)</u>	<u>(2,462,981)</u>	<u>(2,215,282)</u>	<u>247,699</u>
50,000	50,000	849,829	799,829
(839,995)	(860,961)	(849,829)	11,132
613,074	613,074	849,026	235,952
<u>(1,554,823)</u>	<u>(1,554,823)</u>	<u>(1,267,601)</u>	<u>287,222</u>
<u>(1,731,744)</u>	<u>(1,752,710)</u>	<u>(418,575)</u>	<u>1,334,135</u>
(3,706,820)	(4,215,691)	(2,633,857)	1,581,834
4,859,191	4,859,191	4,859,191	0
<u>979,675</u>	<u>979,675</u>	<u>979,675</u>	<u>0</u>
<u>\$2,132,046</u>	<u>\$1,623,175</u>	<u>\$3,205,009</u>	<u>\$1,581,834</u>

**City of East Cleveland, Ohio**  
*Combined Statement of Revenues,  
Expenses and Changes in Fund Equity*  
*Proprietary Fund Type*  
For the Year Ended December 31, 2001

	Enterprise
<b>Operating Revenues</b>	
Charges for Services	\$9,498,432
<b>Operating Expenses</b>	
Personal Services	703,353
Contractual Services	7,194,367
Materials and Supplies	906,370
Other	43,171
Depreciation	348,483
<i>Total Operating Expenses</i>	9,195,744
<i>Operating Income</i>	302,688
<b>Non-Operating Revenues</b>	
Interest	16,352
<i>Income Before Operating Transfers</i>	319,040
Operating Transfers In	418,575
<i>Net Income</i>	737,615
<i>Retained Earnings (Deficit) Beginning of Year (Restated - See Note 3)</i>	(712,251)
<i>Retained Earnings End of Year</i>	25,364
<i>Contributed Capital Beginning and End of Year</i>	7,832,733
<i>Total Fund Equity End of Year</i>	\$7,858,097

See accompanying notes to the general purpose financial statements

**City of East Cleveland, Ohio**  
*Combined Statement of Cash Flows*  
*Proprietary Fund Type*  
*For the Year Ended December 31, 2001*

	<u>Enterprise</u>
<b><i>Increase (Decrease) in Cash and Cash Equivalents</i></b>	
<b>Cash Flows From Operating Activities</b>	
Cash Received From Customers	\$8,275,180
Cash Payments to Suppliers for Materials and Supplies	(331,616)
Cash Payments for Employee Services and Benefits	(719,377)
Cash Payments for Contractual Services	(7,176,124)
Other Operating Expenses	(45,356)
<i>Net Cash Provided by Operating Activities</i>	2,707
<b>Cash Flows from Noncapital Financing Activities:</b>	
Transfers In	418,575
Advances In	1,752,412
<i>Net Cash Provided by Noncapital Financing Activities</i>	2,170,987
<b>Cash Flows From Capital and Related Financing Activities</b>	
Acquisition of Capital Assets	(12,692)
Principal Paid on OPWC Loans	(41,868)
<i>Net Cash Used for Capital and Related Financing Activities</i>	(54,560)
<b>Cash Flows from Investing Activities</b>	
Interest	16,352
<i>Net Increase in Cash and Cash Equivalents</i>	2,135,486
<i>Cash and Cash Equivalents Beginning of Year</i>	(2,135,486)
<i>Cash and Cash Equivalents End of Year</i>	\$0

(continued)

**City of East Cleveland, Ohio**  
*Combined Statement of Cash Flows*  
*Proprietary Fund Type (continued)*  
*For the Year Ended December 31, 2001*

	<u>Enterprise</u>
<b>Reconciliation of Operating Income to Net Cash Provided by Operating Activities</b>	
<i>Operating Income</i>	<u>\$302,688</u>
<b>Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities:</b>	
Depreciation	348,483
(Increase)/Decrease in Assets:	
Accounts Receivable	(1,223,252)
Increase/(Decrease) in Liabilities:	
Accounts Payable	590,812
Accrued Wages	4,517
Claims Payable	(4,799)
Compensated Absences Payable	(8,456)
Intergovernmental Payable	<u>(7,286)</u>
<i>Total Adjustments</i>	<u>(299,981)</u>
<i>Net Cash Provided by Operating Activities</i>	<u><u>\$2,707</u></u>

See accompanying notes to the general purpose financial statements

**City of East Cleveland, Ohio**  
*Combined Statement of Revenues, Expenses and  
Changes in Fund Equity - Budget (Non-GAAP Basis) and Actual  
Proprietary Fund Type  
For the Year Ended December 31, 2001*

	Enterprise Funds			Variance Favorable (Unfavorable)
	Original Budget	Final Budget	Actual	
<b>Revenues</b>				
Charges for Services	\$8,741,600	\$8,741,600	\$8,275,180	(\$466,420)
Interest	40,000	40,000	16,352	(23,648)
<i>Total Revenues</i>	<u>8,781,600</u>	<u>8,781,600</u>	<u>8,291,532</u>	<u>(490,068)</u>
<b>Expenses</b>				
Current:				
Personal Services	814,899	814,899	719,377	95,522
Materials and Supplies	681,532	681,532	346,102	335,430
Contractual Services	7,195,288	7,195,288	7,189,110	6,178
Other	75,000	75,000	47,221	27,779
Capital Outlay	12,692	12,692	12,692	0
Debt Service:				
Principal Retirement	47,589	47,589	41,868	5,721
<i>Total Expenses</i>	<u>8,827,000</u>	<u>8,827,000</u>	<u>8,356,370</u>	<u>470,630</u>
<i>Excess of Revenues Under Expenses</i>	(45,400)	(45,400)	(64,838)	(19,438)
Operating Transfers In	<u>305,000</u>	<u>305,000</u>	<u>418,575</u>	<u>113,575</u>
<i>Excess of Revenues and Transfers Over Expenses</i>	259,600	259,600	353,737	94,137
<i>Fund Equity (Deficit) Beginning of Year</i>	(2,176,573)	(2,176,573)	(2,176,573)	0
Unexpended Prior Year Encumbrances	<u>41,088</u>	<u>41,088</u>	<u>41,088</u>	<u>0</u>
<i>Fund Equity (Deficit) End of Year</i>	<u>(\$1,875,885)</u>	<u>(\$1,875,885)</u>	<u>(\$1,781,748)</u>	<u>\$94,137</u>

See accompanying notes to the general purpose financial statements

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**City of East Cleveland, Ohio**  
*Notes To The General Purpose Financial Statements*  
*For the Year Ended December 31, 2001*

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**Note 1 - Reporting Entity and Basis of Presentation**

***A. Reporting Entity***

The City of East Cleveland is a home rule municipal corporation established under the laws of the State of Ohio which operates under its own Charter. The current Charter, which provides for a Council/Mayor form of government, was adopted in 1918.

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 presides at Council meetings. As the chief conservator of the peace, he oversees the enforcement of all laws and ordinances. He also appoints all department heads and executes all contracts, conveyances, and evidences of indebtedness of the City.

Legislative authority is vested in a five member council with all five members elected at large for two year staggered terms. Council enacts ordinances and resolutions relating to tax levies, appropriates and borrows money, and accepts bids for materials and services and other municipal purposes.

On September 9, 1988, the Auditor of State's office declared the City of East Cleveland to be in a state of fiscal emergency in accordance with Section 118.06, Ohio Revised Code. The declaration resulted in the establishment of a Financial Planning and Supervision Commission. The Commission is comprised of the Mayor of the City, Council President, three financial consultants from various corporations and/or organizations and two representatives from the State of Ohio. This Commission is required to adopt a financial recovery plan for the City, and the plan must be updated annually. By State statute, the City must operate within the provisions of the recovery plan.

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 East Cleveland this includes public safety (police and fire), highways and streets, culture and recreation, public improvements, community development (planning and zoning), public health, water and sanitation, and general administrative and legislative services.

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 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 that are fiscally dependent on the City in that for which the City approves the budget, the issuance of debt, or the levying of taxes. Currently, the City has no component units.

**City of East Cleveland, Ohio**  
*Notes To The General Purpose Financial Statements*  
*For the Year Ended December 31, 2001*

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***B. Basis of Presentation - Fund Accounting***

The City uses funds and account groups to report on its financial position and the results of its operations. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain City functions or activities.

A fund is defined as a separate accounting entity with a self-balancing set of accounts recording cash and other financial resources, together with all related liabilities and residual equities or balances, and changes therein, which are segregated for the purpose of carrying on specific activities or attaining certain objectives in accordance with special regulations, restrictions or limitations. An account group is a financial reporting device designed to provide accountability for certain assets and liabilities that are not recorded in the funds because they do not directly affect net expendable available financial resources.

For financial statement presentation purposes, the various funds of the City are grouped into the following generic fund types under the broad fund categories governmental, proprietary and fiduciary.

***Governmental Fund Types*** Governmental funds are those through which most governmental functions typically are financed. The acquisition, use and balances of the City's expendable financial resources and the related current liabilities (except for those accounted for in proprietary funds) are accounted for through governmental funds. The following are the City's governmental fund types:

***General Fund*** This fund is the operating fund of the City and is used to account 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 general laws of Ohio.

***Special Revenue Funds*** These funds are established to account for the proceeds of specific revenue sources (other than amounts relating to major capital projects) that are legally restricted to expenditure for specified purposes.

***Debt Service Funds*** These funds are used to account for the accumulation of resources for, and the payment of, general long-term debt principal and interest.

***Capital Projects Funds*** These funds are used to account for financial resources to be used for the acquisition or construction of major capital facilities (other than those financed by proprietary funds).

***Proprietary Fund Type*** Proprietary funds are used to account for the City's ongoing activities which are similar to those found in the private sector. The following is the City's proprietary fund type:

***Enterprise Funds*** These funds are used to account for operations that are financed and operated in a manner similar to private business enterprises where the intent is that costs (expenses, including depreciation) of providing services to the general public on a continuing basis be financed or recovered primarily through user charges or where it has been decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability or other purposes.

***Fiduciary Fund Type*** Fiduciary funds are used to account for assets held by the City in a trustee capacity or as an agent for individuals, private organizations, other governmental units, and/or other funds. The City only utilizes the agency fund type.



**City of East Cleveland, Ohio**  
*Notes To The General Purpose Financial Statements*  
*For the Year Ended December 31, 2001*

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**Agency Funds** These funds are purely custodial (assets equal liabilities) and thus do not involve measurement of results of operations.

**Account Groups** To make a clear distinction between fixed assets related to specific funds and those of general government, and between long-term liabilities related to specific funds and those of a general nature, the following account groups are used:

**General Fixed Assets Account Group** The general fixed assets account group is used to account for all fixed assets of the City other than those accounted for in the proprietary funds.

**General Long-Term Obligations Account Group** The general long-term obligations account group is used to account for all unmatured long-term indebtedness of the City that is not a specific liability of the proprietary funds.

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

The significant accounting policies followed in the preparation of these financial statements are summarized below. These policies conform to generally accepted accounting principles (GAAP) for local governmental units as prescribed in the statements issued by the Governmental Accounting Standards Board and other recognized authoritative sources. The City also applies Financial Accounting Standards Board Statements and Interpretations issued prior to November 30, 1989, to its proprietary activities, provided they do not conflict with or contradict GASB pronouncements.

### **A. Measurement Focus and Basis of Accounting**

The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. All governmental fund types and expendable trust funds are accounted for using a flow of current financial resources measurement focus. With this measurement focus, only current assets and current liabilities are generally included on the balance sheet. Operating statements of these funds present increases (i.e., revenues and other financing sources) and decreases (i.e., expenditures and other financing uses) in net current assets.

All proprietary funds are accounted for on a flow of economic resources measurement focus. With this measurement focus, all assets and all liabilities associated with the operation of these funds are included on the balance sheet. Fund equity (i.e., net total assets) is segregated into contributed capital and retained earnings components. Proprietary fund type operating statements present increases (i.e., revenues) and decreases (i.e., expenses) in net total assets.

Basis of accounting refers to when revenues and expenditures or expenses are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurements made. The modified accrual basis of accounting is followed for the governmental, and agency funds. The full accrual basis of accounting is followed for the proprietary funds.

**Revenue Recognition** 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

**City of East Cleveland, Ohio**  
*Notes To The General Purpose Financial Statements*  
*For the Year Ended December 31, 2001*

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to be collected soon enough thereafter to be used to pay liabilities of the current year. For the City, available means expected to be received within thirty-one days of year-end.

Non-exchange transactions, in which the City receives value without directly giving equal value in return, include income taxes, property taxes, grants, entitlements and donations. On an accrual basis, revenue from income taxes is recognized in the period in which the income is earned. Revenue from property taxes is recognized in the year for which the taxes are levied. (See Note 7) Revenue from grants, entitlements and donations is recognized in the year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the year when use is first permitted, matching requirements, in which the City must provide local resources to be used for a specified purpose, and expenditure requirements, in which the resources are provided to the City on a reimbursement basis. On a modified accrual basis, revenue from non-exchange transactions must also be available before it can be recognized.

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

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

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

***B. Budgetary Data***

The budgetary process is prescribed by provisions of the Ohio Revised Code and entails the preparation of budgetary documents within an established timetable. The major documents prepared are the tax budget, the certificate of estimated resources, and the appropriation ordinance, all of which are prepared on the budgetary basis of accounting. The certificate of estimated resources and the appropriations ordinance are subject to amendment throughout the year with the legal restriction that appropriations cannot exceed estimated resources, as certified. All funds, other than the agency funds, are legally required to be budgeted and appropriated. The legal level of budgetary control is at the fund level for all funds except the general fund which is at the department level. Any budgetary modifications at the legal level of control may only be made by resolution of City Council. The Finance Director has authority below the legal level of control.

**City of East Cleveland, Ohio**  
*Notes To The General Purpose Financial Statements*  
*For the Year Ended December 31, 2001*

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***Tax Budget*** During the first Council meeting in July, the City Finance Director presents the annual operating budget for the following fiscal year to City Council for consideration and passage. The adopted budget is submitted to the County Auditor, as Secretary of the County Budget Commission, by July 20 of each year, for the period January 1 to December 31 of the following year.

***Estimated Resources*** The County Budget Commission determines if the budget substantiates a need to levy all or part of previously authorized taxes and reviews estimated revenue. The Commission certifies its actions to the City by September 1. As part of this certification, the City receives the official certificate of estimated resources, which states the projected revenue of each fund. Prior to December 31, the City must revise its budget so that the total contemplated expenditures from any fund during the ensuing fiscal year will not exceed the amount available as stated in the certificate of estimated resources. The revised budget then serves as the basis for the annual appropriations ordinance. On or about January 1, the certificate of estimated resources is amended to include unencumbered fund balances at December 31 of the preceding year. The certificate may be further amended during the year if the Finance Director determines, and the Budget Commission agrees, that an estimate needs to be either increased or decreased. The amounts reported as the original budgeted amounts in the budgetary statements reflect the amounts in the amended certificate when the original appropriations were adopted. The amounts reported on the budgetary statements as final budgeted amounts reflect the amounts in the final amended official certificate of estimated resources issued during 2001.

***Appropriations*** A temporary appropriation ordinance to control expenditures may be passed on or about January 1 of each year for the period January 1 to March 31. An annual appropriation ordinance must be passed by April 1 of each year for the period January 1 to December 31. The appropriation ordinance fixes spending authority at the fund, department, and object level. The appropriation ordinance may be amended during the year as new information becomes available. Total fund appropriations may not exceed current estimated resources, as certified. The allocation of appropriations among departments within the general fund may be modified during the year only by an ordinance of Council. The amounts reported as the original budgeted amounts in the budgetary statements reflect the first appropriated budget for that fund that covered the entire year, including amounts automatically carried over from prior years. The amounts reported as the final budgeted amounts in the statement of budgetary comparisons represent the final appropriation amounts, including all amendments and modifications passed by Council.

***Lapsing of Appropriations*** At the close of each year, the unencumbered balance of each appropriation reverts to the respective fund from which it was appropriated and becomes subject to future appropriations.

***Encumbrances*** As part of formal budgetary control, purchase orders, contracts and other commitments for the expenditure of monies are recorded as the equivalent of expenditures on the non-GAAP budgetary basis in order to reserve that portion of the applicable appropriation and to determine and maintain legal compliance. The Ohio Revised Code prohibits expenditures plus encumbrances from exceeding appropriations. On the GAAP basis, encumbrances outstanding at year end are reported as reservations of fund balances for subsequent-year expenditures for governmental funds.

***C. Cash and Cash Equivalents***

Cash received by the City is deposited into several bank accounts. Monies from all funds, including the enterprise funds, are maintained in these accounts or temporarily used to purchase short-term investments. Individual fund integrity is maintained through the City's records. The general fund and the permanent improvement and transfer station capital project funds made advances to the water and sewer enterprise funds and to the older Americans, community development, and special purpose grant special revenue funds to eliminate the funds' negative cash balances. The water and sewer enterprise funds and the older

**City of East Cleveland, Ohio**  
*Notes To The General Purpose Financial Statements*  
*For the Year Ended December 31, 2001*

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Americans, community development, and special purpose grant special revenue funds have interfund payables for the amounts of the advances received from the general fund and the permanent improvement and transfer station capital project funds and the general fund and permanent improvement and transfer station capital project funds have an interfund receivable for the same amounts on the combined balance sheet.

During 2001, investments were limited to STAROhio and repurchase agreements. Repurchase agreements are reported at cost. STAROhio is an investment pool managed by the State Treasurer's Office which allows governments within the State to pool their funds for investment purposes. Nonparticipating investments such as repurchase agreements are reported at cost. STAROhio is not registered with the SEC as an investment company, but does operate in a manner consistent with Rule 2a7 of the Investment Company Act of 1940. Investments in STAROhio are valued at STAROhio's share price which is the price the investment could be sold for on December 31, 2001.

The City has segregated bank accounts for monies held separate from the City's central bank account. These interest bearing depository accounts are presented in the combined balance sheet as "cash and cash equivalents in segregated accounts" since they are not required to be deposited into the City treasury.

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

Investment procedures are restricted by the provisions of the Ohio Revised Code. Interest revenue credited to the general fund during 2001 amounted to \$116,369, which includes \$116,060 assigned from other City funds.

For purposes of the combined statement of cash flows and for presentation on the combined balance sheet, investments of the cash management pool and investments with original maturities of three months or less at the time they are purchased by the City are considered to be cash equivalents.

***D. Inventory***

Inventories of governmental funds are stated at cost while the inventories of the proprietary funds are stated at the lower of cost or market. For all funds, cost is determined on a first-in, first-out basis. The costs of inventory items are recorded as expenditures in the governmental fund types when purchased and as expenses in the proprietary fund types when used. Reported materials and supplies inventory is equally offset by a fund balance reserve in the governmental funds which indicates that it does not constitute available expendable resources even though it is a component of net current assets.

***E. Interfund Assets and Liabilities***

Receivables and payables resulting from transactions between funds for services provided or goods received and agency fund assets due to operating funds are classified as "due from other funds" or "due to other funds" on the balance sheet. Short-term interfund loans are classified as "interfund receivables/payables."

**City of East Cleveland, Ohio**  
*Notes To The General Purpose Financial Statements*  
*For the Year Ended December 31, 2001*

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***F. Fixed Assets and Depreciation***

General fixed assets are not capitalized in the funds used to acquire or construct them. Instead capital acquisition and construction are reflected as expenditures in governmental funds, and the related assets are reported in the general fixed assets account group. Fixed assets utilized in proprietary funds are capitalized in the funds.

All purchased fixed assets are valued at cost where historical records are available and at an estimated historical cost when no historical records exist. Donated fixed assets are valued at their estimated fair market value on the date received.

Improvements are capitalized. The costs of normal maintenance and repairs that do not add to the value of an asset or materially extend an asset's life are not capitalized. Interest incurred during the construction of general fixed assets is also not capitalized.

Public domain ("infrastructure") general fixed assets consisting of roads, bridges, curbs and gutters, streets and sidewalks, drainage systems and lighting systems are not capitalized, as these assets are immovable and of value only to the City.

Assets in the general fixed assets account group are not depreciated. Depreciation of machinery, equipment, vehicles, and water lines in the proprietary fund types is computed using the straight-line method. Improvements to fund fixed assets are depreciated over the useful lives of the related fixed assets. The estimated useful lives are as follows:

Machinery and Equipment	5-15 years
Vehicles	3-25 years
Water Lines	25 years

***G. Accrued Liabilities and Long-Term Obligations***

In general, governmental fund payables and accrued liabilities are reported as obligations of the funds, regardless of whether they will be liquidated with current resources. However, claims and judgments compensated absences, special termination benefits and contractually required pension contributions are reported as a liability in the general long-term obligation account group to the extent that they will not be paid with current expendable available financial resources. Payments made more than sixty days after year end are generally considered not to have been paid with current available resources. Long-term loans, capital leases and contingent liabilities are recognized as a liability of the general long-term obligations account group until due.

Long-term debt and other obligations financed by proprietary funds are reported as liabilities in the appropriate proprietary funds.

**City of East Cleveland, Ohio**  
*Notes To The General Purpose Financial Statements*  
*For the Year Ended December 31, 2001*

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***H. Compensated Absences***

Vacation benefits are accrued as a liability as the benefits are earned if the employees' rights to receive compensation are attributable to services already rendered and it is probable that the employer will compensate the employees for the benefits through paid time off or some other means. The City records a liability for accumulated unused vacation time when earned for all employees with more than one year of service.

Sick leave benefits are accrued as a liability using the termination method. An accrual for earned sick leave is made to the extent it is probable that benefits will result in termination payments. The liability is an estimate based on the City's past experience of making termination payments.

For governmental funds, the current portion of unpaid compensated absences is the amount expected to be paid using expendable available resources. These amounts are recorded in the account "compensated absences payable" in the fund from which the employees who have accumulated unpaid leave are paid. The remainder is reported in the general long-term obligations account group. In proprietary funds, the entire amount of compensated absences is reported as a fund liability.

***I. Fund Equity***

Reservations of fund balances are established to identify the existence of assets that, because of their non-monetary nature or lack of liquidity, represent financial resources not available for current appropriations or expenditures including amounts that are legally segregated for a specific future use. Fund balances are reserved for encumbrances and inventory.

***J. Interfund Transactions***

Quasi-external transactions are accounted for as revenues and expenditures or expenses. Transactions that constitute reimbursements to a fund for expenditures/expenses initially made from it that are properly applicable to another fund are recorded as expenditures/expenses in the reimbursing fund and as reductions of expenditures/expenses in the fund that is reimbursed.

Nonrecurring or nonroutine permanent transfers of equity are reported as residual equity transfers. All other interfund transfers are reported as operating transfers.

***K. Estimates***

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

**City of East Cleveland, Ohio**  
*Notes To The General Purpose Financial Statements*  
*For the Year Ended December 31, 2001*

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***L. Total - Memorandum Only Columns***

The "Total" columns on the general purpose financial statements are captioned "Memorandum Only" to indicate that they are presented only to facilitate financial analysis. Data in these columns do not present financial position, results of operations or cash flows in conformity with generally accepted accounting principles. Neither is such data comparable to a consolidation. Interfund eliminations have not been made in the aggregation of this data.

**Note 3 – Change in Accounting Principle and Restatement of Fund Equity**

***Change in Accounting Principles*** For fiscal year 2001, the City has implemented GASB Statement No. 33, "Accounting and Financial Reporting for Nonexchange Transactions" and GASB Statement No 36, "Recipient Reporting for Certain Shared Nonexchange Transactions." The effect of implementing the statements was to increase the fund balance at December 31, 2000 in the general fund by \$28,020 from \$3,587,948 to \$3,615,968 and in the special revenue funds by \$8,224 from \$1,212,947 to \$1,221,171. Since there were no capital contributions made to proprietary funds for fiscal year 2001, implementation of GASB Statement No. 33 had no affect on contributed capital.

At December 31, 2000, OPWC loans payable were overstated in the enterprise funds. This restatement increased the retained earnings as of December 31, 2000 by \$20,934 from (\$733,185) to (\$712,251).

**Note 4 - Budgetary Basis of Accounting**

While reporting financial position, results of operations, and changes in fund balance/retained earnings 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 Combined Statement of Revenues, Expenditures, and Changes in Fund Balances - Budget (Non-GAAP Basis) and Actual - All Governmental Fund Types and the Combined Statement of Revenues, Expenses and Changes in Fund Equity - Budget (Non-GAAP Basis) and Actual - Proprietary Fund Type are presented on the budgetary basis to provide a meaningful comparison of actual results with the budget and to demonstrate compliance with State statute. The major differences between the budget basis and the GAAP basis (generally accepted accounting principles) are:

1. Revenues are recorded when received in cash (budget) as opposed to when susceptible to accrual (GAAP).
2. Expenditures/expenses are recorded when paid in cash (budget) as opposed to when the liability is incurred (GAAP).
3. Encumbrances are treated as expenditures for all funds (budget) rather than as a reservation of fund balance for governmental fund types (GAAP).

**City of East Cleveland, Ohio**  
*Notes To The General Purpose Financial Statements*  
*For the Year Ended December 31, 2001*

4. For the proprietary funds, the acquisition and construction of capital assets are reported on the operating statement (budget) rather than as balance sheet transactions (GAAP).
5. Investments reported at fair value rather than cost.

The following tables summarize the adjustments necessary to reconcile the GAAP basis statements to the budgetary basis statements on a fund type basis:

Excess of Revenues and Other Financing Sources  
Over (Under) Expenditures and Other Uses  
All Governmental Fund Types

	General	Special Revenue	Debt Service	Capital Projects
GAAP Basis	(\$1,729,234)	\$891,643	(\$7,231)	(\$38,337)
Net Adjustment for Revenue Accruals	326,263	(1,079,682)	0	(1)
Advances In	849,829	0	0	0
Fair Value Adjustment for Investments	(5,225)	0	0	0
Net Adjustment for Expenditure Accruals	(82,578)	(12,597)	0	(143,061)
Advances Out	0	(849,829)	0	0
Encumbrances	(294,975)	(443,421)	0	(15,421)
Budget Basis	(\$935,920)	(\$1,493,886)	(\$7,231)	(\$196,820)

Net Income /Excess of Revenues  
Over (Under) Expenses  
Proprietary Fund Type

	Enterprise
GAAP Basis	\$737,615
Net Adjustment for Revenue Accruals	(1,223,252)
Net Adjustment for Expense Accruals	574,786
Depreciation Expense	348,483
Principal Retirement	(41,868)
Capital Outlay	(12,692)
Encumbrances	(29,335)
Budget Basis	\$353,737



**City of East Cleveland, Ohio**  
*Notes To The General Purpose Financial Statements*  
*For the Year Ended December 31, 2001*

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**Note 5 - Accountability and Compliance**

***A. Fund Deficits***

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

<u>Fund</u>	<u>Amount</u>
<i>Special Revenue Funds:</i>	
Older Americans	\$117,397
Community Development	212,247
Special Purpose Grant	53,136

The special revenue funds' deficit resulted from adjustments for accrued liabilities. The general fund is liable for any deficit and provides operating transfers when cash is required, not when accruals occur.

***B. Legal Compliance***

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

Older Americans Title III B/C	\$154,527
Older Americans Title III	5,993
Older American Adult Day Care	113,483
Community Development	461,613
Special Purpose	51,276

In order to eliminate these deficits, the City is monitoring the drawdown of grant funds, and in 2002, the City contracted with a private firm to operate the water and sewer departments which should significantly reduce the operating costs.

Contrary to Section 5705.39, Ohio Revised Code, the following accounts had original appropriations in excess of original estimated resources plus available balance for the year 2001:

**City of East Cleveland, Ohio**  
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	Estimated Revenues Plus Carryover Balance	Appropriations	Excess
Special Revenue Funds:			
Community Development	\$3,850,075	\$3,963,980	\$113,905
Enterprise Fund:			
Water	3,924,009	4,433,000	508,991
Sewer	2,986,018	4,394,000	1,407,982

Contrary to Section 5705.39, Ohio Revised Code, the following accounts had final appropriations in excess of final estimated resources plus available balance for the year 2001:

	Estimated Revenues Plus Carryover Balance	Appropriations	Excess
Special Revenue Funds:			
Community Development	\$3,850,075	\$3,963,980	\$113,905
Enterprise Funds:			
Water	3,924,009	4,433,000	508,991
Sewer	2,986,018	4,394,000	1,407,982

**Note 6 - Deposits and Investments**

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

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

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

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

**City of East Cleveland, Ohio**  
*Notes To The General Purpose Financial Statements*  
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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 monies deposited with the institution.

Interim monies may be invested in the following securities:

1. United States treasury notes, bills, bonds, or any other obligation or security issued by the United States treasury or any other obligation guaranteed as to principal and interest by the United States;
2. Bonds, notes, debentures, or any other obligations or securities issued by any federal government agency or instrumentality, including but not limited to, the federal national mortgage association, federal home loan bank, federal farm credit bank, federal home loan mortgage corporation, government national mortgage association, and student loan marketing association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;
3. Written repurchase agreements in the securities listed above provided that the market value of the securities subject to the repurchase agreement must exceed the principal value of the agreement by at least two percent and be marked to market daily, and that the term of the agreement must not exceed thirty days;
4. Bonds and other obligations of the State of Ohio;
5. No-load money market mutual funds consisting exclusively of obligations described in division (1) or (2) of this section and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions; and
6. The State Treasurer's investment pool (STAROhio).

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.

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

GASB Statement 3 "Deposits with Financial Institutions, Investments (including Repurchase Agreements), and Reverse Repurchase Agreements" requires disclosures to help assess actual and potential future deposit and investment market and credit risks. The following information regarding deposits and investments is presented using the categories of risk identified in GASB Statement 3.

**Deposits** At year-end, the carrying amount of the City's deposits was \$1,607,113 and the bank balance was \$1,981,259. Of the bank balance:

1. \$316,604 was covered by federal depository insurance.
2. \$1,664,655 was uncollateralized and uninsured. Although the securities were held by the pledging financial institutions trust department or agent in the City's name and all State statutory requirements for the investment of money had been followed, noncompliance with federal requirements could potentially subject the City to a successful claim by the FDIC.

**Investments** Investments are classified under the guidelines of GASB Statement No. 3 into three categories. Category 1 includes investments that are insured or registered or are held by the City or its agent in the City's name. Category 2 includes uninsured and unregistered investments which are held by the counterparty's trust department or agent in the City's name. Category 3 includes uninsured and unregistered investments which are held by the counterparty, or by its trust department or agent but not in the City's name. STAROhio is an unclassified investment since it is not evidenced by securities that exist in physical or book entry form.

	Category 3	Carrying and Fair Value
Repurchase Agreements	\$499,695	\$499,695
STAROhio		1,026,673
		\$1,526,368

The classification of cash and cash equivalents and investments on the combined financial statements is based on criteria set forth in GASB Statement No. 9. Cash and cash equivalents are defined to include investments with original maturities of three months or less and cash and investments of the cash management pool.

**City of East Cleveland, Ohio**  
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A reconciliation between the classification of cash and investments on the combined financial statements and the classification per GASB Statement No. 3 is as follows:

	Cash and Cash Equivalents/Deposits	Investments
GASB Statement No. 9	\$3,133,481	\$0
Investments:		
Repurchase Agreements	(499,695)	499,695
STAROhio	(1,026,673)	1,026,673
GASB Statement No. 3	\$1,607,113	\$1,526,368

**Note 7 - Taxes**

***A. Property Taxes***

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

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

Public utility tangible personal property currently is assessed at varying percentages of true value; public utility real property is assessed at 35 percent of the true value. 2001 public utility property taxes which became a lien December 31, 2000, are levied after October 1, 2001, and are collected in 2002 with real property taxes.

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

**City of East Cleveland, Ohio**  
*Notes To The General Purpose Financial Statements*  
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The full tax rate for all City operations for the year ended December 31, 2001, was \$12.70 per \$1,000 of assessed value. The assessed values of real and tangible personal property upon with 2001 property tax receipts were based as follows:

Real Estate:	
Residential/Agricultural	\$116,140,660
Other Real Estate	51,496,030
	<hr/>
Total Real Estate	167,636,690
	<hr/>
Tangible Personal Property:	
Public Utility	16,843,760
General Tangible Personal	12,779,771
	<hr/>
Total Personal Property	29,623,531
	<hr/>
Total Assessed Value	\$197,260,221
	<hr/> <hr/>

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

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

The County Treasurer collects property taxes on behalf of all taxing districts in the County, including the City of East Cleveland. The County Auditor periodically remits to the City its portion of the taxes collected. Property taxes receivable represents real and tangible personal property taxes, public utility taxes and outstanding delinquencies which are measurable as of December 31, 2001, and for which there is an enforceable legal claim. Although total property tax collections for the next year are measurable, amounts to be received during the available period are not subject to reasonable estimation at December 31, nor are they intended to finance 2001 operations. The receivable is offset by deferred revenue.

***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.

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. Income tax proceeds are credited in the general fund.

**City of East Cleveland, Ohio**  
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**Note 8 - Receivables**

Receivables at December 31, 2001 primarily consisted of taxes, accounts (billings for user charged services), intergovernmental receivables, entitlement or shared revenues and interest on investments. All receivables are considered fully collectible, except for aged utility receivables which equaled \$4,737,698.

The allowance for doubtful accounts was \$1,889,224 and the collectible aged accounts receivable was \$2,848,474. Enterprise funds accounts receivable consist of the following:

Utilities	Water	Sewer	Total
Current Accounts Receivable	\$567,238	\$590,390	\$1,157,628
Aged Accounts 12/31/01	1,395,752	1,452,722	2,848,474
Enterprise Funds Accounts Receivable	\$1,962,990	\$2,043,112	\$4,006,102

A summary of the principal items of intergovernmental receivables follows:

Intergovernmental Receivables	Amount
<b>General Fund:</b>	
Cigarette Tax	\$105
Liquor Permits	1,984
Local Government	2,170,976
<i>Total General Fund</i>	<i>2,173,065</i>
<b>Special Revenue Funds:</b>	
Street	190,769
Older Americans	169,818
Norfolk and Southern Award	25,000
CSX Award	500,000
EMS	12,062
Minority Health Grant	79,313
CDBG	2,168,440
Special Purpose (HUD)	1,750,000
VOCA	4,021
STEP Grant	2,155
<i>Total Special Revenue Funds</i>	<i>4,901,578</i>
<i>Total</i>	<i>\$7,074,643</i>

**City of East Cleveland, Ohio**  
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**Note 9 - Fixed Assets**

A summary of the enterprise funds' fixed assets at December 31, 2001 follows:

Water Lines	\$8,370,468
Machinery and Equipment	<u>235,687</u>
Total	8,606,155
Less: Accumulated Depreciation	<u>(1,777,979)</u>
Net Fixed Assets	<u><u>\$6,828,176</u></u>

A summary of changes in general fixed assets during 2001 follows:

	Balance 12/31/2000	Additions	Deletions	Balance 12/31/2001
Land	\$2,063,948	\$0	\$0	\$2,063,948
Buildings	3,168,725	1,600	0	3,170,325
Machinery and Equipment	<u>4,806,258</u>	<u>1,198,144</u>	<u>441,960</u>	<u>5,562,442</u>
Total	<u><u>\$10,038,931</u></u>	<u><u>\$1,199,744</u></u>	<u><u>\$441,960</u></u>	<u><u>\$10,796,715</u></u>

**Note 10 - Contingencies**

**A. Litigation**

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

**B. Grants**

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

**Note 11 - Capital Leases**

Capital lease obligations recorded in the general long-term obligations account group relate to a copier, computer equipment, telephone equipment, fire equipment and trucks which are leased under long-term agreements. These agreements meet the criteria of a capital lease as defined by Financial Accounting



**City of East Cleveland, Ohio**  
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Standards Board Statement No. 13, "Accounting for Leases", which defines a capital lease generally as one which transfers benefits and risks of ownership to the lessee.

Capital lease payments have been reclassified and are reflected as debt service in the general purpose financial statements in the general, special revenue, and capital project funds. These expenditures are reflected as program/function expenditures on a budgetary basis.

The equipment has been capitalized in the general fixed assets account group in the amount of \$823,733, the present value of the minimum lease payments at the inception of the lease. A corresponding liability was recorded in the general long-term obligations account group. The following is a schedule of the future minimum lease payments required under the capital leases and the present value of the minimum lease payments as of December 31, 2001.

Year	Amount
2002	\$135,367
2003	118,654
2004	93,469
2005	76,521
2006	76,521
2007 - 2011	106,910
Total minimum lease payments	607,442
Less: Amount representing interest	(91,809)
Present value of minimum lease payments	\$515,633

**Note 12 - Long Term Obligations**

Changes in the long-term obligations of the City during 2001 were as follows:

	Outstanding 12/31/2000	Additions	(Reductions)	Outstanding 12/31/2001
<b>General Long-term Obligations:</b>				
OPWC Loan 0%	\$7,411	\$0	(\$7,411)	\$0
Capital Leases	547,920	61,940	(94,227)	515,633
Accounts Payable	0	450,000	0	450,000
Police and Fire Pension Liability	1,682,874	0	(22,137)	1,660,737
Compensated Absences	1,675,264	399,588	(329,714)	1,745,138
Intergovernmental Payable	390,747	619,904	(390,747)	619,904
Total General Long-Term Obligations	4,304,216	1,531,432	(844,236)	4,991,412
<b>Enterprise Fund Obligations</b>				
OPWC Loans 0%	617,551	0	(41,868)	575,683
Total	\$4,921,767	\$1,531,432	(\$886,104)	\$5,567,095

**City of East Cleveland, Ohio**  
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Capital leases will be paid from various revenues from the general, special revenue, and capital project funds. The police and fire pension liability will be paid from the general fund. Compensated absences reported in the "compensated absences payable" account and contingent liabilities will be paid from the fund from which the employees' salaries are paid. Intergovernmental payable (long-term pension obligations) will be paid from the fund from which the employees' salaries are paid. Enterprise OPWC loans will be paid from user charges.

The City's overall legal debt margin was \$17,612,338 at December 31, 2001. Principal and interest requirements to retire long-term obligations outstanding at December 31, 2001 are as follows:

	OPWC Loans	Police and Fire Liability
2002	\$41,368	\$93,596
2003	41,368	93,596
2004	41,368	93,596
2005	41,369	93,596
2006	41,369	93,596
2007-2011	206,842	467,982
2012-2016	155,866	467,982
2017-2021	6,133	467,982
2022-2035	0	1,259,401
Total	575,683	3,131,327
Less Interest	0	(1,470,590)
Principal	\$575,683	\$1,660,737

**Note 13 - Compensated Absences**

Vacation and sick leave cannot exceed 50 or 120 days, respectively, at year end. However, all employees with sick days in excess of the 120 days must convert to cash on a three-to-one basis.

Upon retirement, an employee can be paid for 25 percent of their accumulated hours of sick leave. Upon retirement, termination, or death of the employee, accrued vacation is paid for time the employees have earned but not used.

As of December 31, 2001, the liability for unpaid compensated absences was \$1,856,089 for the entire City.

**Note 14 - Defined Benefit Pension Plans**

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

All City full-time employees, other than non-administrative full-time police officers and firefighters participate in the Public Employees Retirement System of Ohio (PERS), a cost-sharing multiple-employer defined benefit plan administered by the Public Employees Retirement Board. PERS provides basic

**City of East Cleveland, Ohio**  
*Notes To The General Purpose Financial Statements*  
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retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Benefits are established by Chapter 145 of the Ohio Revised Code. PERS issues a stand-alone financial report which may be obtained by writing to the Public Employees Retirement System, 277 East Town Street, Columbus, Ohio 43215-4642.

Plan members are required to contribute 8.5 percent of their annual covered salary to fund pension obligations. The 2001 employer contribution rate for the City was 9.25 percent of covered payroll, increased from 6.54 percent in 2000. For 2000, PERS instituted a temporary employer rollback for state and local governments. Contribution rates are authorized by State statute. The contribution rates are determined actuarially. The City's required contributions to PERS for the years ended December 31, 2001, 2000, and 1999 were \$406,837, \$254,119 and \$728,030 respectively. The full amount has been contributed for 2000 and 1999. 57.59 percent has been contributed for 2001 with the remainder being reported as a liability in the general long-term obligation account group.

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

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

Police and firefighters are required to contribute 10 percent of their annual covered salary to fund pension obligations and the City is required to contribute 12 percent for police and 16.5 percent for firefighters. For 2001, the City contributions were 12.25 percent for police and 16.75 percent for firefighters. Contributions are authorized by State statute. The City's contributions to the OP&F for police and firefighters were \$315,178 and \$433,370 for the year ended December 31, 2001, \$268,890 and \$461,599 for the year ended December 31, 2000, and \$594,651 and \$449,145 for the year ended December 31, 1999. The full amount has been contributed for 2000 and 1999. 78.70 percent and 83.71 percent, respectively, have been contributed for 2001 with the remainder being reported as a liability in the general long-term obligations account group.

In addition to the current contribution, the City pays installments on the accrued liability incurred when the State of Ohio established the statewide pension system for police and firefighters in 1967. As of December 31, 2001, the unfunded liability of the City was \$1,660,737, payable in semiannual payments through the year 2035. This is an accounting liability of the City which will not vary. The liability is reported in the general long-term obligations account group.

**City of East Cleveland, Ohio**  
*Notes To The General Purpose Financial Statements*  
*For the Year Ended December 31, 2001*

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**Note 15 - Postemployment Benefits**

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

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

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

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

The number of active contributing participants was 411,076. The City's actual contributions for 2001 which were used to fund postemployment benefits were \$189,124. The actual contribution and the actuarially required contribution amounts are the same. PERS's net assets available for payment of benefits at December 31, 2000, (the latest information available) were \$11,735.9 million. The actuarially accrued liability and the unfunded actuarial accrued liability were \$14,364.6 million and \$2,628.7 million, respectively.

***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 benefit check or is a spouse or eligible dependent child of such person. An eligible dependent child is any child under the age of 18 whether or not the child is attending school or under the age of 22 if attending school full-time or on a 2/3 basis.

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

**City of East Cleveland, Ohio**  
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7.25 percent. In addition, since July 1, 1992, most retirees have been required to contribute a portion of the cost of their health care coverage through a deduction from their monthly benefit payment.

The City's actual contributions for 2001 that were used to fund post employment benefits were \$196,986 for police and \$196,986 for fire. The OP&F total health care expenses for the year ending December 31, 2000, (the latest information available) was \$106,160,054, which was net of member contributions of \$5,657,431. The number of OP&F participants eligible to receive health care benefits as of December 31, 2000, was 12,853 for police and 10037 for firefighters.

**Note 16 - Segment Information for Enterprise Funds**

The City maintains two enterprise funds to account for sewer and water operations. Segment information for these operations for the year ended December 31, 2000 is as follows:

	<u>Water</u>	<u>Sewer</u>	<u>Total</u>
Operating Revenues	\$4,696,771	\$4,801,661	\$9,498,432
Depreciation Expense	347,763	720	348,483
Operating Income (Loss)	(139,461)	442,149	302,688
Operating Transfer In	274,009	144,566	418,575
Non-Operating Revenues	8,176	8,176	16,352
Net Income	142,724	594,891	737,615
Fixed Asset Additions	12,692	0	12,692
Net Working Capital	386,662	643,259	1,029,921
Total Assets	8,789,448	2,044,830	10,834,278
Total Equity	7,213,120	644,977	7,858,097
Encumbrances at December 31, 2001	27,931	1,404	29,335

**Note 17 - Risk Management**

The City of East Cleveland is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During 2001, the City contracted with several companies for other types of insurance as follows:

<u>Company</u>	<u>Type of Coverage</u>	<u>Deductible</u>
Love Insurance Partners	Blanket Building and Business Personal Property	\$15,771,292
Clarendon National Insurance	Boiler/Machinery	\$17,000,000

Claims have not exceeded coverage in any of the last three years and there were no significant reductions in commercial coverage in any of the past three years.

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Workers' compensation coverage is provided by the State. The City pays the State Workers' Compensation System a premium based on a rate per \$100 of salaries. This rate is calculated based on accident history and administrative costs.

The health insurance claims liability of \$5,935 reported in various funds at December 31, 2001, was estimated by the third party administrator and is based on the requirements of Governmental Accounting Standards Board Statement No. 30 which requires that a liability for unpaid claims costs, including estimates of costs relating to incurred but not reported claims, be reported. The estimate was not affected by incremental claims adjustments expenses and does not include other allocated or unallocated claim adjustment expenses. Prior to 2001, the City was self-insured for health insurance. For 2001, the City ceased to be self-insured; however, the City is still liable for claims from the years prior to 2001 and the third party administrator continues to process and pay valid claims that were initiated in prior years. Changes in the funds' claims liability amount in 1999, 2000 and 2001 were:

	Balance at Beginning of Year	Current Year Claims	Claim Payments	Balance at End of Year
1999	\$84,994	\$1,223,821	\$1,197,223	\$111,592
2000	111,592	1,054,466	1,041,787	124,271
2001	124,271	32,220	150,556	5,935

**Note 18- Interfund Transactions**

Interfund balances at December 31, 2001, consist of the following interfund receivables and payables:

	Receivable	Payable
General Fund	\$1,906,699	\$0
Special Revenue Funds		
Older Americans	0	267,384
Community		
Development	0	461,613
Special Purpose Grant	0	51,276
<i>Total Special Revenue</i>	0	780,273
Capital Projects Funds		
Permanent Improvement	64,310	0
Transfer Station	561,677	0
<i>Total Capital Projects</i>	625,987	0
Enterprise Funds		
Water	0	667,592
Sewer	0	1,084,821
<i>Total Enterprise</i>	0	1,752,413
Totals	\$2,532,686	\$2,532,686

**City of East Cleveland, Ohio**  
*Notes To The General Purpose Financial Statements*  
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**Note 19 – Special Audit Report**

The Auditor of State's special audit report, dated November 15, 2004, identified \$111,234 in findings for recovery against Cecelia George, the former Director of Community Development, her father, brother and son.

On November 17, and 18, 2004, Cecelia George, her father, brother and son were sentenced in the U.S. District Court based on pleading guilty to Title 18 USC 371, conspiracy relating to the theft of government funds from the City's Community Development Block Grant (CDBG). As part of their plea agreement, Ms. George and her family members were ordered to pay restitution.

Cecilia George served as Community Development Director for the City from November of 2000 to December of 2001. While in that position, Ms. George and three family members, conspired to and defrauded the citizens of the City and the United States Department of Housing and Urban Development by embezzling and otherwise stealing CDBG funds. Ms. George steered federally funded contracts to front companies that were associated with her family members and then funneled the money back through those companies to bank accounts under the control of Ms. George and her family members. In addition, the parties falsified and forged documents in order to conceal that they were benefiting from CDBG funds.

**Note 20 – Subsequent Event**

On August 30, 2004, Emmanuel Onunwor, the former Mayor of the City, was convicted in U. S. District Court on 22 counts, including extortion, racketeering, mail fraud and tax fraud. The Mayor received kickbacks from contractors who did business with the City. Mr. Onunwor was the Mayor of the City from 1998 to 2004.

**City of East Cleveland, Ohio**  
*Notes To The General Purpose Financial Statements*  
*For the Year Ended December 31, 2001*

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**CITY OF EAST CLEVELAND  
CUYAHOGA COUNTY  
SCHEDULE OF FEDERAL AWARDS RECEIPTS AND EXPENDITURES  
FOR THE YEAR ENDED DECEMBER 31, 2001**

Federal Grantor/ Pass-Through Grantor/ Program Title	Project/Grant Number	CFDA Number	Receipts	Disbursements
<b>U.S. Department of Housing and Urban Development</b>				
<i>Direct Programs:</i>				
Community Development Block Grant/Entitlement Grant 99	B99MC3-90030	14.218	\$640,135	\$640,135
Community Development Block Grant/Entitlement Grant 00	B00MC3-90030	14.218	<u>1,221,616</u>	<u>1,246,148</u>
Total Community Development Block Grant/Entitlement Grant			<u>1,861,751</u>	<u>1,886,283</u>
HOME Investment Partnerships Program 97	M98MC3-90200	14.239	34,870	34,870
HOME Investment Partnerships Program 98	M99MC3-90200	14.239	41,635	41,635
HOME Investment Partnerships Program 99	M00MC3-90200	14.239	<u>25,831</u>	<u>25,831</u>
Total HOME Investment Partnerships Program			<u>102,336</u>	<u>102,336</u>
<i>Passed Through the Ohio Department of Development:</i>				
Special Purpose Grant	OH125PG33	14.xxx	<u>0</u>	<u>22,292</u>
Total U.S. Department of Housing and Urban Development			<u>1,964,087.0</u>	<u>2,010,911</u>
<b>U.S. Department of Health and Human Services</b>				
<i>Passed Through the Western Reserve Area Agency on Aging:</i>				
<b>Aging Cluster:</b>				
Title III, Part B_Grants for Supportive Services and Senior Centers 00	N/A	93.044	59,891	59,891
Title III, Part B_Grants for Supportive Services and Senior Centers 01	N/A	93.044	<u>173,290</u>	<u>173,290</u>
Total Title III, Part B			<u>233,181</u>	<u>233,181</u>
Title III, Part C_Nutrition 00	N/A	93.045	18,213	18,213
Title III, Part C_Nutrition 01	N/A	93.045	<u>32,288</u>	<u>32,288</u>
Total Title III, Part C			<u>50,501</u>	<u>50,501</u>
Total Aging Cluster			<u>283,682</u>	<u>283,682</u>
Total U.S. Department of Health and Human Services			<u>283,682</u>	<u>283,682</u>
<b>U.S. Department of Justice</b>				
<i>Passed Through the Ohio Attorney General's Office:</i>				
Crime Victim Assistance (V.O.C.A.)	18-176	16.575	<u>48,257</u>	<u>48,257</u>
Total U.S. Department of Justice			<u>48,257</u>	<u>48,257</u>
<b>TOTAL FEDERAL ASSISTANCE</b>			<u>\$2,296,026</u>	<u>\$2,342,850</u>

The notes to the schedule of federal awards expenditures are an integral part of this schedule.

**CITY OF EAST CLEVELAND  
CUYAHOGA COUNTY**

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

1. The accompanying supplemental schedule of federal awards expenditures has been prepared on the cash basis of accounting.
2. The City is maintaining a cash balance of approximately \$25,000 from revolving loan monies distributed through the Department of Commerce (11.307). The value of loans outstanding is not determinable. There has been no activity involving this program since 1993 and the collection of the outstanding loan balances are questionable. Disposition of this program is being discussed with the Department of Commerce.



## **Auditor of State Betty Montgomery**

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

Members of City Council  
City of East Cleveland  
Cuyahoga County  
14340 Euclid Avenue  
East Cleveland, Ohio 44112

We have audited the financial statements of the City of East Cleveland, Cuyahoga County, Ohio, (the City) as of and for the year ended December 31, 2001, and have issued our report thereon dated February 7, 2005. 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.

#### **Compliance**

As part of obtaining reasonable assurance about whether the Government's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could directly and materially affect 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 we must report under *Government Auditing Standards* which are described in the accompanying schedule of findings as items 2001-001 through 2001-008. We also noted certain immaterial instances of noncompliance that we have reported to management of the City in a separate letter dated February 7, 2005.

#### **Internal Control Over Financial Reporting**

In planning and performing our audit, we considered the City's internal control over financial reporting 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 management's assertions in the financial statements. Reportable conditions are described in the accompanying schedule of findings as items 2001-009 through 2001-011.

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. We considered the reportable conditions described above, items 2002-009 through 2002-011 to be material weaknesses. 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 February 7, 2005.

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

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

**Betty Montgomery**  
Auditor of State

February 7, 2005



## Auditor of State Betty Montgomery

### INDEPENDENT ACCOUNTANTS' REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR FEDERAL PROGRAM AND INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

Members of City Council  
City of East Cleveland  
Cuyahoga County  
14340 Euclid Avenue  
East Cleveland, Ohio 44112

#### Compliance

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

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

As described in items 2001-012 to 2001-018 in the accompanying schedule of findings, the City did not comply with requirements regarding allowable costs/cost principles, procurement and cash management that are applicable to its Community Development Block Grant and HOME programs. Compliance with such requirements is necessary, in our opinion, for the City to comply with requirements applicable to those programs.

In our opinion, except for the noncompliance described in the preceding paragraph, the City complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended December 31, 2001. We also noted certain instances of noncompliance that do not require inclusion in this report that we have reported to management of the City in a separate letter dated February 7, 2005.

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### **Compliance (Continued)**

As more fully described in Note 19, on October 19, 2004, the Auditor of State issued a special audit report on Community Development Block Grant expenditures made by the City's Community Development Department, which included findings for recovery of \$107,459 against the former Director of the Community Development Department.

### **Internal Control Over Compliance**

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

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses. We noted other matters involving the internal control over federal compliance that do not require inclusion in this report, that we have reported to management of the City in a separate letter dated February 7, 2005.

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



**Betty Montgomery**  
Auditor of State

February 7, 2005

CITY OF EAST CLEVELAND  
 CUYAHOGA COUNTY  
 DECEMBER 31, 2001

SCHEDULE OF FINDINGS

**1. SUMMARY OF AUDITOR'S RESULTS**

<b>(d)(1)(i)</b>	<b>Type of Financial Statement Opinion</b>	Unqualified
<b>(d)(1)(ii)</b>	<b>Were there any material control weakness conditions reported at the financial statement level (GAGAS)?</b>	Yes
<b>(d)(1)(ii)</b>	<b>Were there any other reportable control weakness conditions reported at the financial statement level (GAGAS)?</b>	No
<b>(d)(1)(iii)</b>	<b>Was there any reported material non-compliance at the financial statement level (GAGAS)?</b>	Yes
<b>(d)(1)(iv)</b>	<b>Were there any material internal control weakness conditions reported for major federal programs?</b>	No
<b>(d)(1)(iv)</b>	<b>Were there any other reportable internal control weakness conditions reported for major federal programs?</b>	No
<b>(d)(1)(v)</b>	<b>Type of Major Programs' Compliance Opinion</b>	Qualified
<b>(d)(1)(vi)</b>	<b>Are there any reportable findings under § .510?</b>	Yes
<b>(d)(1)(vii)</b>	<b>Major Programs (list):</b>	CFDA # 14.218 - Community Development Block Grant CFDA # 14.239 - HOME Program
<b>(d)(1)(viii)</b>	<b>Dollar Threshold: Type A\B Programs</b>	Type A: > \$ 300,000 Type B: all others
<b>(d)(1)(ix)</b>	<b>Low Risk Auditee?</b>	No

**CITY OF EAST CLEVELAND  
 CUYAHOGA COUNTY  
 DECEMBER 31, 2001  
 SCHEDULE OF FINDINGS  
 (Continued)**

<b>2. FINDINGS RELATED TO THE FINANCIAL STATEMENTS        REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS</b>
--

The comments appearing with an asterisk (\*) denotes a comment that was previously reported to management in the 2000 audit report for which corrective action has not been taken.

**MATERIAL CITATIONS**

Finding Number	2001-001
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Pursuant to Ohio Rev. Code §118.04(A), the Auditor of State declared the City to be in a fiscal emergency condition on September 9, 1988. Once it is determined that a fiscal emergency exists, Ohio Rev. Code §118.05(A) requires that a financial planning and supervision commission for the City of East Cleveland be established. Pursuant to Ohio Rev. Code §118.05(B), the East Cleveland Financial Planning and Supervision Commission consists of the following seven voting members:

- Treasurer of State, or designee;
- Director of Budget and Management, or designee;
- Mayor of East Cleveland;
- President of City Council; and
- Three members appointed by the Governor from a list submitted by the Mayor of East Cleveland

Ohio Rev. Code §118.27(A) requires that the Commission continue in existence until the Auditor of State determines that the City has done the following:

- Planned, and is in the process of good faith implementation of, an effective financial accounting and reporting system, in accordance with Ohio Rev. Code §118.10, that is expected to be completed within two years;
- Corrected and eliminated or has planned and is in the process of good faith implementation of correcting and eliminating all of the fiscal emergency conditions pursuant to Ohio Rev. Code §118.04, and no new fiscal emergency conditions have occurred. The Auditor of State is to monitor the progress of the City;
- Met the objectives of the detailed financial plan described in Ohio Rev. Code § 118.06; and,
- Prepared a five-year financial forecast in accordance with standards issued by the Auditor of State. The Auditor of State must render an opinion on the financial forecast that is considered non-adverse.

Ohio Rev. Code §118.06(A)(3), requires the mayor of the municipal corporation to submit to the commission , within 120 days after its first meeting, a detailed financial plan, as approved or amended and approved by ordinance or resolution of the legislative authority, containing, in part, the approximate dates of the commencement, progress upon, and completion of the actions enumerated pursuant to division (A)(1) of this section and a reasonable period of time expected to be required to implement the plan. The municipal corporation, in consultation with the commission and the financial supervisor, shall prepare a reasonable time schedule for progress toward and achievement of the requirements for the financial plan and the financial plan shall be consistent with that time schedule.

On November 12, 1998, a financial plan was instituted for the period 1998-2002. Since its inception, the plan has yet to be followed nor has it been updated to reflect any progress or changes in the assumptions in which the plan was formulated despite there being significant deviations between the assumptions and actual results.



**CITY OF EAST CLEVELAND  
CUYAHOGA COUNTY  
DECEMBER 31, 2001  
SCHEDULE OF FINDINGS  
(Continued)**

<b>2. FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS</b>
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Finding Number	2001-001
----------------	----------

(Continued)

The City of East Cleveland Financial Plan for fiscal years 1998-2002, Section III (C) entitled, – Future General Fund Operation and Assumptions, provides that in regard to the assumptions used in formulating the projection of cash receipts and expenditures for the general fund for 1998 through 2002, to the extent assumed events do not occur, the actual results may vary materially from the projections. The Plan states that it will be the responsibility of the City to monitor these results against the plan. If the projected revenues or expenditures are not met, the plan will be amended for changed circumstances (i.e, expenditure overruns).

A comparison of the plan's 2001 general fund projected cash receipts and expenditures with the actual results is as follows:

	<u>Projection</u>	<u>Actual</u>	<u>Difference</u>	
			<u>Amount</u>	<u>Percentage</u>
Cash Receipts	\$15,818,781	\$16,566,110	\$747,329	5%
Cash Expenditures	15,225,591	17,084,258	(1,858,667)	11%
Operating Cash Surplus (Deficit)	<u>\$593,190</u>	<u>\$(518,148)</u>	<u>\$(1,111,338)</u>	<u>-214%</u>

As the table illustrates, the actual amounts differed enough from the projected amounts that the City's projected surplus was in actuality a significant deficit at year end. As a result, the plan that is supposed to be designed to result in recovery is not being followed nor is it being updated to reflect the current economic situation. This is contrary to Section 118.06(A)(3) and is a significant factor in the City's continued fiscal emergency status.

Finding Number	2001-002
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Ohio Rev. Code § 118.06(A)(1)(b), requires the mayor of the municipal corporation, within 120 days after the first meeting of the commission, to submit to the commission a detailed financial plan, as approved or amended and approved by ordinance or resolution of the legislative authority, containing, in part, the actions to be taken to satisfy any judgment and past due accounts payable, and all past due payable payroll and fringe benefits.

In July of 1997, the City entered into a contract with Huron Hospital to provide health care services and meals for the prisoners incarcerated in the City's jail. The bills for the services provided were sent to the Chief of Police who placed them in a drawer and did not submit them to Finance Department for payment. As of December 31, 2002, the City owed the Hospital \$713,063 for prisoner health care expenses. According to the invoice, the dates of service and amount owed are as follows:

<u>Dates of Service</u>	<u>Amount Owed</u>
1991-1995	\$173,024
1996-2000	418,488
2001-2002 (1)	<u>121,550</u>
Total	<u>\$713,062</u>

(1) The billing summary provided to the auditors did not separate 2001 from 2002 and are therefore combined.

**CITY OF EAST CLEVELAND  
 CUYAHOGA COUNTY  
 DECEMBER 31, 2001  
 SCHEDULE OF FINDINGS  
 (Continued)**

<b>2. FINDINGS RELATED TO THE FINANCIAL STATEMENTS        REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS</b>
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Finding Number	2001-002
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(Continued)

In September 2004, a settlement was negotiated in which the City agreed to pay the Hospital \$450,000. The financial statements reflect an adjustment of \$450,000 to accounts payable.

The Commission was never made aware of these liabilities. Based on the above, the City has not complied with Ohio Rev. Code § 118.06(A)(1)(b) since these expenses were never incorporated in the City's financial plan.

Finding Number	2001-003
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Ohio Rev. Code §742.38(A)(1), provides that all employers of prospective members of Ohio Police & Fire (OP&F) are required to obtain physical examinations for the prospective members prior to the date of full-time hire. In accordance with Ohio Rev. Code §742.38(A)(2), these examinations are to be submitted to OP&F within 60 days after the full-time hire date. Employers who do not submit such examinations by 60 days after the full-time hire date, will be fined until the physical examinations are submitted in accordance with Ohio Rev. Code § 742.353. Since employers will have an opportunity to correct issues with pre-employment physicals if the employer files the requisite reports, OP&F will not estimate the penalties. Instead, OP&F will bill the penalties when the correct filing is made since the penalties are based on the days in which the employer is not compliant with the statutory and administrative guidelines.

Based on the late filings of physical examinations, the OP&F pension fund assessed a \$30,000 penalty that was paid by the City. The penalty would not have been assessed if the City had complied with Ohio Rev. Code §742.38.

We recommend that procedures be developed to ensure the required physical examination of police and fire members be completed in accordance with Ohio Rev. Code §742.38 so that unnecessary expenditures relating to this issue are not incurred in the future.

Finding Number	2001-004
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26 Code of Federal Regulations (CFR) 31.3403-1, requires an employer to deduct and withhold federal income tax from the salaries and wages of their employees. Internal Revenue Code (IRC) Section 3403 provides that the employer is liable for payment of withholding tax whether or not it is collected from the employees, and is not liable to any person for the amount of any such payment.

26 CFR Section 1.6041-2(a)(1), requires employers to report all compensation on Form W-2 if any tax is withheld from the employees' gross pay or issue Form 1099 if compensation is over \$600 and no tax is withheld from the employees' gross pay.

The Internal Revenue Service assessed the City a \$5,595 penalty for filing 373 Form W-2's late for the year 2000. For the tax quarter ending March 31, 2001, the City failed to remit the correct amount of taxes. As a result, the City under paid \$52,523 and was assessed a penalty of \$23,896 and interest of \$3,385. The City paid these respective amounts.

In order to eliminate unnecessary use of public funds, we recommend the City file all W-2 forms in a timely manner.

**CITY OF EAST CLEVELAND  
CUYAHOGA COUNTY  
DECEMBER 31, 2001  
SCHEDULE OF FINDINGS  
(Continued)**

<b>2. FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS</b>
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(Continued)

Finding Number	2001-005 *
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Ohio Rev. Code § 5705.41(B), prohibits a subdivision from making an expenditure unless it has been appropriated. Ohio Rev. Code § 5705.41(D)(1) provides that no subdivision shall make any contract or order any expenditure of money unless the certificate of the fiscal officer is attached. The fiscal officer must certify that the amount required to meet such a commitment has been lawfully appropriated and or in the treasury or in the process of collection to the credit of an appropriate fund free from any previous encumbrance. Further, contracts and orders for expenditure lacking prior certification shall be declared void.

As of September 30, 2001, the following accounts had expenditures plus encumbrances in excess of appropriations:

<u>Fund</u>	<u>Total Appropriations</u>	<u>Total Expenditures plus Encumbrances</u>	<u>Excess</u>
General Fund-Parks and Recreation	\$219,379	\$269,488	(\$50,109)
General Fund-Refuse Collection	635,011	660,604	(25,593)
General Fund-Human Resources	162,769	218,106	(55,337)
Recycling Grant	3,179	15,820	(12,641)
Children First Foundation	325,000	378,732	(53,732)
Home 96	0	27,041	(27,041)

Finding Number	2001-006 *
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Ohio Rev. Code § 5705.10 provides, in part, that money paid into any fund shall be used only for the purposes for which such fund is established. As of December 31, 2001, the following funds had significant negative cash fund balances:

<u>Fund</u>	<u>Amount</u>
Older Americans Title III B/C	(\$154,527)
Older Americans Title III	(5,993)
Older Americans Adult Day Care	(113,483)
Community Development	(461,613)
Special Purpose	(71,276)

These deficit balances indicate that money from other funds was used to pay expenditures for the above funds contrary to Ohio Revised Code Section 5705.10. We recommend the City monitor the drawdown of grant funds to ensure that deficits do not occur.

**CITY OF EAST CLEVELAND  
CUYAHOGA COUNTY  
DECEMBER 31, 2001  
SCHEDULE OF FINDINGS  
(Continued)**

<b>2. FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS</b>
---

(Continued)

Finding Number	2001-007 *
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Ohio Revised Code § 5705.41(D)(1) provides that no subdivision shall make any contract or order any expenditure of money unless the certificate of the fiscal officer is attached. The fiscal officer must certify that the amount required to meet such a commitment 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 encumbrance. Further, contracts and orders for expenditures lacking prior certification shall be declared void.

This section also provides two exceptions to the above requirements:

- “Then and Now” Certificate - If no certificate is furnished as required, upon receipt of the fiscal officer’s certificate that both at the time a contract or order was made, and at the time the fiscal officer is completing the certification, that a sufficient sum was appropriated and free of any previous encumbrances, City Council may authorize the issuance of a warrant in payment of the amount due upon such contract or order by resolution within 30 days from the receipt of such certificate (a then and now certificate), if such expenditure is otherwise valid.
- If the amount involved is less than \$3,000 (\$1,000 prior to April 7, 2003), the fiscal officer may authorize it to be paid without the affirmation of City Council 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 City.

A test of expenditures disclosed that 27% of the purchase orders were dated after the invoice date and the instances noted did not fall within any exceptions to this Section. The City did not record a reservation of the applicable appropriation (encumber) at the time a commitment for the expenditure of funds was made resulting in encumbrances being understated at year end. Failure to encumber commitments could result in deficit fund balances and overspending funds.

Also, a test of the HOME Program expenditures disclosed that 58% of those expenditures did not have a purchase order. Since the purchase order is used to document the fiscal officer’s certification, the certification was not obtained for these expenditures.

Finding Number	2001-008
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Ohio Revised Code § 5705.39 provides, in part, that total appropriations from each fund should not exceed the total estimated revenue. The original appropriation measure adopted, which was never amended during the year, disclosed the following accounts had total appropriations in excess of total estimated revenue:

<u>Fund</u>	<u>Total Estimated Revenue</u>	<u>Total Appropriations</u>	<u>Excess</u>
CDBG	\$3,850,075	\$3,963,980	(\$113,905)
Water	3,924,009	4,433,000	(508,991)
Sewer	2,986,018	4,394,000	(1,407,982)

**CITY OF EAST CLEVELAND  
 CUYAHOGA COUNTY  
 DECEMBER 31, 2001  
 SCHEDULE OF FINDINGS  
 (Continued)**

<b>2. FINDINGS RELATED TO THE FINANCIAL STATEMENTS        REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS</b>
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(Continued)

Finding Number	2001-009 *
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Cash balances include cash in bank accounts and other imprest accounts such as payroll. Cash is an asset that is very susceptible to embezzlement and is considered a high risk asset because of its liquidity and its desirability. In order for the cash to be properly monitored and accounted for, most entities perform a monthly bank reconciliation. This reconciliation verifies that the cash balance reported in the general ledger agrees to the adjusted balance per the bank statement.

A review of the cash cycle disclosed the City's general and municipal court bank accounts were not reconciled during 2001. The court's accounts are clearing accounts that should pay all monthly collections after the end of the month, however, thousands of dollars remained in the accounts because of the unreliability of the records. As a result, the City retained the services of the Auditor of State's Local Government Services Division (LGS) to reconcile the accounts. The results disclosed that hundreds of significant adjustments were necessary and the adjusted book balance exceeded the adjusted bank balance by a net amount of \$247,227 for the general account. An adjustment to the financial statements was made to reflect this matter. Once the court's bank accounts were reconciled the proper distributions were made.

We recommend the general and municipal court bank accounts be reconciled on a monthly basis. Furthermore, each month the reconciliation of the general account should be reviewed and approved by the Finance Director. The Judge should review and approve the court bank reconciliations.

Finding Number	2001-010 *
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The City has instituted control procedures to ensure that recorded payroll transactions are for the performance of services and are approved. The City utilizes time cards and leave forms to document the performance of services and use of leave time. The signatures of the employee, the supervisor and the payroll administrator attest to the accuracy of the time charged and leave used. In addition, the department head is required to sign the check pick-up roster when distributing each department's checks.

During a control test of payroll expenditures, we noted the following weaknesses which may result in employees not being properly compensated:

- 23% of the time cards were not signed by the employee;
- 5% of the time cards were not signed by the department head indicating approval of the hours charged;
- 5% of the of the time cards were not signed by the department head indicating approval of the hours charged when the employee charged overtime;
- For 8% of the time cards tested, the payroll administrator did not make a notation on the timecard indicating the hours charged were mathematically correct;
- For 5% of the payroll authorization forms tested, the department head or designated employee did not sign the form;
- 11% of the check pick-up rosters could not be located; and
- 15% of the time cards tested could not be located.

We recommend the City adhere to its control procedures for processing payroll. This would include the review and approval of employee hours, by the supervisor and by the payroll administrator. Also, the check pick-up rosters and time cards should be retained and filed with each payroll batch.

**CITY OF EAST CLEVELAND  
CUYAHOGA COUNTY  
DECEMBER 31, 2001  
SCHEDULE OF FINDINGS  
(Continued)**

<b>2. FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS</b>
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(Continued)

Finding Number	2001-011 *
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A review of the Municipal Court disclosed the following:

- A test of Court cases disclosed that 12% of the case files could not be located. Furthermore, record keeping was inaccurate and inconsistent, however, during the 2001 fiscal year, the Clerk of Courts established written procedures, instructions and assignment of duties to aid in the prevention of misunderstandings and errors that have occurred in the past.
- The Court does not maintain an accurate cash journal for the Civil, Criminal/Traffic, and Bail Bond accounts because the computer software does not allow integration of data. Thus, there is no record of a cash balance to reconcile to, and no reconciliations were performed by the Court during the year. In the summer of 2001, the Court retained the services of the Auditor of State's - Local Government Services Division (LGS) to reconcile the cash journal to the bank account.
- The Court does not review the open items list of bail bond accounts held regularly to determine the status of the various stale accounts. Sufficient controls to validate the accuracy of open items have not been established. Consequently, LGS reconstructed the open item list for the last three years. As of December 31, 2001, approximately \$305,346 in bond accounts were outstanding and approximately \$231,932 was more than one year old.
- The Court does not prepare an open items list for the Civil account necessary to substantiate the month end cash balance. This leads to errors in the open items lists that are not detected in a timely manner. Again, the Court retained the services of LGS to create an open items list.
- The Court tracks only the amount of fines and court fees received, not the amount assessed. As a result, there are no records for the collection of overdue accounts or an aging of accounts receivable. Without a report, the City's finance department cannot determine accounts receivable.

Based on these facts, we recommend that:

- Court cases should be properly maintained and the written procedures established during the year should be distributed and reviewed by all court employees.
- Reconciliations be performed at the end of each month in order to validate the cash activities of the Civil, Criminal/Traffic, and Bail Bond accounts.
- Due diligence be used in the monitoring of the Court's cash and book activities. Sufficient monitoring procedures should be established and consistently applied to ensure the integrity of individual court accounts and to avoid commingling activities. Monitoring should include, but not be limited to, management's review of case status, accounts receivable, open items lists (including bonds), account reconciliations and the disposition of cases.
- The Court review and update the open items list for City and State bonds to determine the status of each bail bond deposit. Once the status is determined, the proper steps should be taken by the law department to determine which items may legally be placed in an unclaimed funds account established by the City. Policies should be established that ease the compilation of the list and the list should be updated monthly.

**CITY OF EAST CLEVELAND  
 CUYAHOGA COUNTY  
 DECEMBER 31, 2001  
 SCHEDULE OF FINDINGS  
 (Continued)**

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

(Continued)

Finding Number	2001-011 * (Continued)
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- The Court substantiate the Civil account month-end balance by preparing an open items list of Civil cases pending which constitute the month-end book balance. The list should be updated and prepared at each month-end.
- The Court should record the amounts of fees and fines it assesses on each case and begin to monitor and track collection rates against the assessed fees and fines. Under the direction of the judge and clerk of court, the Court should ensure that monitoring and tracking mechanisms are developed. In addition, the City should work with the Clerk of Courts to implement a reporting mechanism for the collection of cash and receivables and the reporting of accounts receivable. The City should ensure that appropriate controls are in place to assure that revenues and accounts receivable amounts are accurate. An accounts receivable listing will be necessary for the implementation of GASB 34.

**3. FINDINGS FOR FEDERAL AWARDS**

Finding Number	2001-012 *
CFDA Title and Number	Community Development Block Grant, CFDA # 14.218
Federal Agency	Department of Housing and Urban Development

OMB Circular A-87, Attachment B, Part eight, Section H, Subpart (1), provides, in part, that charges to federal awards for salaries and wages, whether treated as direct or indirect costs, will be based on payrolls documented in accordance with generally accepted practices of the governmental unit and approved by responsible official(s) of the governmental unit. Subpart (4) of Section H provides that where employees work on multiple activities or cost objectives, a distribution of their salaries or wages will be supported by personnel activity reports or equivalent documentation which meets the standards in subsection (5) unless a statistical sampling system or other substitute system has been approved by the cognizant federal agency. Such documentary support will be required where employees work on: (a) more than one federal award, (b) a federal award and a non-federal award, (c) an indirect cost activity and a direct cost activity, (d) two or more indirect activities which are allocated using different allocation bases, or (e) an unallowable activity and a direct or indirect cost activity.

A test of the time allocation sheets disclosed that 20% were not prepared for employees who work on a federal program and a non federal program, or on more than one federal program award. This causes questions of the validity and allowability of such costs in the manner that they were charged to the various grants.

We recommend that time allocation sheets be completed for all employees who work on federal programs each pay period. The time allocation sheets should be turned into the payroll clerk so that the proper funds are charged.

**CITY OF EAST CLEVELAND  
 CUYAHOGA COUNTY  
 DECEMBER 31, 2001  
 SCHEDULE OF FINDINGS  
 (Continued)**

<b>3. FINDINGS FOR FEDERAL AWARDS</b>
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(Continued)

Finding Number	2001-013 *
CFDA Title and Number	Community Development Block Grant, CFDA # 14.218
Federal Agency	Department of Housing and Urban Development

24 CFR Part 570.206(e) provides, in part, that indirect costs may be charged to the Community Development Block Grant (CDBG) program using an accepted cost allocation plan, prepared in accordance with OMB Circular A-87. Community Development Block Grants Compliance Requirements (B) for the recovery of indirect costs state that organizations must prepare cost allocation plans (CAPs) which apply to local governments or indirect cost rate proposals (IDCRPs) in accordance with the guidelines provided in the circulars. Other organizations, such as smaller local governments, must prepare appropriate CAPs or IDCRPs and maintain them on file for review. Indirect costs are defined as those costs that benefit common activities and, therefore, cannot be readily assigned to a specific direct cost objective or project.

During calendar year 2001, neither the CAPs nor IDCRPs were prepared for the recovery of indirect costs. Instead, the City has been charging the CDBG program for indirect costs based on an indirect cost plan prepared several years ago by the HUD Office of Inspector General (OIG).

We recommend the City annually develop either a cost allocation plan (CAP) or an indirect cost rate proposal (IDCRP) and maintain a copy on file. The City should maintain documentation as to how it arrived at the rates or allocation plan to be used. The development of such plans should not result in arbitrary charges.

Finding Number	2001-014 *
CFDA Title and Number	Community Development Block Grant, CFDA # 14.218 HOME Program, CFDA # 14.239
Federal Agency	Department of Housing and Urban Development

24 CFR Part 84.22(e) requires recipients to follow the reimbursement method of cash management when they are unable to follow the requirements prescribed for the advance method. HUD recommends the City follow the reimbursement method of cash management. When recipients are funded on a reimbursement basis, program costs must be paid for with the recipient's funds before the reimbursement is requested from the federal government.

A review of the draw downs for the CDBG and HOME programs disclosed that funds were being drawn down before the expenditure was paid for with the City's funds. In some instances, the City did not issue the checks to pay the vendors for periods of up to two weeks after the draw down occurred.

We recommend the City pay program costs with its funds before a reimbursement is requested from HUD.



**CITY OF EAST CLEVELAND  
 CUYAHOGA COUNTY  
 DECEMBER 31, 2001  
 SCHEDULE OF FINDINGS  
 (Continued)**

<b>3. FINDINGS FOR FEDERAL AWARDS</b>
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(Continued)

Finding Number	2001-015
CFDA Title and Number	Community Development Block Grant, CFDA # 14.218
Federal Agency	Department of Housing and Urban Development

24 CFR Section 85.36(b) states that “grantees and subgrantees will use their own procurement procedures which reflect State and local laws and regulations, provided that the procurements conform to applicable Federal law and the standards identified in this section.” 24 CFR Section 85.36(d), states that “Small purchase procedures are those relatively simple and informal procurement methods for securing services, supplies, or other property that does not cost more than the simplified acquisition threshold of \$100,000. If small purchase procedures are used, price or rate quotations will be obtained from an adequate number of qualified sources.”

According to the City’s purchasing procedures, expenditures greater than \$3,500 are required to follow competitive bidding procedures. However, City purchasing procedures also exempt personal service expenditures from following competitive bidding procedures, contrary to the above federal laws.

For federal expenditures, we recommend the City revise its procurement procedures to comply with Federal law and require that personal service expenditures greater than \$3,500 follow competitive bidding requirements.

Finding Number	2001-016
CFDA Title and Number	Community Development Block Grant, CFDA # 14.218
Federal Agency	Department of Housing and Urban Development

As stated in OMB Circular A-133 Section D (400(d)(3)-(4)), recipients are responsible for monitoring sub-recipient’s activities to provide reasonable assurance that the sub-recipient is administering federal awards in compliance with federal requirements. The City requires sub-recipients who receive more than \$300,000 in federal awards to have an audit performed.

The Community Development Department contracts with several sub-recipients; however, the Department has not implemented monitoring procedures to provide reasonable assurance that the sub-recipients are administering the federal awards in compliance with federal requirements. Also, the Department does not review the audit reports received from the sub-recipients to determine whether there are any incidents of non-compliance.

We recommend the Community Development Department implement monitoring procedures that provide reasonable assurance that sub-recipient activities are in accordance with the grant agreement. Monitoring procedures include but are not limited to: reviewing reports submitted by the sub-recipient, performing site visits to the sub-recipient to review financial and programmatic records and observe programs, arranging for agreed upon procedure engagements for certain aspects of sub-recipient activities, such as eligibility determinations, reviewing the sub-recipient’s single audit or programs-specific audit and evaluating audit findings along with the sub-recipient’s corrective action plan.

**CITY OF EAST CLEVELAND  
CUYAHOGA COUNTY  
DECEMBER 31, 2001  
SCHEDULE OF FINDINGS  
(Continued)**

**3. FINDINGS FOR FEDERAL AWARDS**

(Continued)

Finding Number	2001-017
CFDA Title and Number	Community Development Block Grant, CFDA # 14.218
Federal Agency	Department of Housing and Urban Development

24 CFR 24 Sections 24.105, 24.110 and 24.510 prohibit non-federal entities from contracting with or making sub-awards under covered transactions to parties that are suspended or debarred or whose principals are suspended or debarred. Covered transactions include procurement contracts for goods or services equal to or in excess of \$100,000 and all non-procurement transactions (e.g. sub-awards to sub-recipients).

A test of federal expenditures disclosed that the City has not obtained the required suspension and debarment certification for all applicable contracts.

We recommend the Community Development Department comply with federal regulation and obtain the required suspension and debarment certifications.

Finding Number	2001-018
CFDA Title and Number	Community Development Block Grant, CFDA # 14.218
Federal Agency	Department of Housing and Urban Development

According to 24 CFR Section 58.22(a)-(b) certain projects that receive Housing and Urban Development (HUD) funds must have an environmental review unless they meet criteria specified in the regulations that would exempt them from the requirement. However, according to 24 CFR Section 58.34(b), if the entity is exempt, they still must document in writing its determination that each activity or project is exempt and meets the conditions specified for such exemption.

The City did not obtain any environmental reviews or document in writing why certain projects were exempt from receiving an environmental review.

We recommend the City adhere to the federal regulations stated above and obtain the required environmental reviews or provide written documentation that the project is exempt and meet the conditions specified for such exemption.

**CITY OF EAST CLEVELAND  
CUYAHOGA COUNTY  
DECEMBER 31, 2001  
SCHEDULE OF PRIOR AUDIT FINDINGS**

Finding Number	Finding Summary	Fully Corrected	Not corrected, partially corrected, different corrective action taken; finding no longer valid; <b>Explain</b>
2000-20818-001	Fund expenditures plus encumbrances were in excess of appropriations	No	No change
2000-20818-002	Various funds had significant cash deficits	No	No change
2000-20818-003	Court dockets were not maintained as required by State law	Yes	The Court began using a docket in December 2000
2000-20818-004	Various purchase orders were dated after the invoice date	No	No change
2000-20818-005	Bank accounts were not reconciled	No	No change
2000-20818-006	Key supervisory controls over payroll were not working	No	No change
2000-20818-007	Improving controls for municipal court operations.	No	Of the numerous recommendations only one was implemented
2000-20818-008	Time allocation sheets were not prepared on a consistent basis for employees who work on a federal program and a non federal program, or on more than one federal program award.	No	No change
2000-20818-009	City charges indirect costs to the grant but has not prepared either a cost allocation plan or indirect cost rate proposal.	No	No change
2000-20818-010	Grant drawdown log sheets could not be located for various CDBG and HOME drawdowns	Yes	Drawdown log sheets were properly maintained
2000-20818-011	Drawdowns for the CDBG and HOME programs were being drawn down before the expenditure was paid for with the City's funds	No	No change
2000-20818-012	The City amended a street resurfacing contract for \$54,420 to include another road not in the original bid. However, the City did not follow competitive bidding procedures for this addition	Yes	The City did not amend any contracts without following competitive bidding procedures, if applicable





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**CITY OF EAST CLEVELAND  
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  
MARCH 29, 2005**