



Mary Taylor, CPA
Auditor of State

**CITY OF EAST CLEVELAND
CUYAHOGA COUNTY**

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Mary Taylor, CPA

Auditor of State

INDEPENDENT ACCOUNTANTS' REPORT

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

To the Members of City Council:

We were engaged to audit the accompanying financial statements of the governmental activities, business type activities, each major fund, and the aggregate remaining fund information of the City of East Cleveland, Cuyahoga County, Ohio, (the City) as of and for the year ended December 31, 2003, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City's management.

The Auditor of State served during the year ended December 31, 2003 as the City's financial supervisor in accordance with procedures established under Ohio Revised Code §118.05 (G). *Government Auditing Standards* considers this service to impair the independence of the Auditor of State to conduct the audit of the City because the Auditor of State may assume broad management powers, duties, and functions in accordance with Ohio Revised Code §118.04. However, *Government Auditing Standards* permits the Auditor of State to audit and opine on this entity, because Ohio Revised Code § 118.05 (G) requires the Auditor of State to provide these supervisory services, and Ohio Revised Code §§ 117.11(B) and 115.56 mandate the Auditor of State to audit Ohio governments.

Ohio Administrative Code § 117-2-03(B) requires the City to prepare its annual financial report in accordance with accounting principles generally accepted in the United States of America. However, as discussed in Note 2, the City revised its accounting basis during the year ending December 31, 2003. The City previously prepared its statements following accounting principles generally accepted in the United States of America. The accompanying financial statements and notes now follow the cash accounting basis. This is a comprehensive accounting basis other than generally accepted accounting principles. The accompanying financial statements and notes omit assets, liabilities, fund equities, and disclosures that, while material, we cannot determine at this time.

The City was unable to present accounting system reports to support the amounts presented on the accompanying financial statements.

Since the City did not provide the evidence described in the above paragraph, the scope of our auditing procedures was not sufficient to enable us to express, and we do not express, an opinion on these financial statements.

As described in Note 3B to the financial statements, the City restated the December 31, 2002 fund balances for the Governmental Activities and Business-Type Activities.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 23, 2009 on our consideration of the City's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, and other matters. While we did not opine on the internal control over financial reporting or on compliance, that report describes the scope of our testing of internal control over financial reporting and compliance and the results of that testing.

Management's Discussion and Analysis is not a required part of the basic financial statements but is supplementary information accounting principles generally accepted in the United States of America require. Since we were unable to express an opinion on the basic financial statements, we could not apply certain limited procedures to the required supplementary information. We did not audit the information and express no opinion on it.

The City did not prepare a federal awards expenditure schedule which would present additional information and is required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*.

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

Mary Taylor, CPA
Auditor of State

December 23, 2009

City of East Cleveland, Ohio
Management's Discussion and Analysis
For the Year Ended December 31, 2003
Unaudited

The discussion and analysis for the City of East Cleveland's (the "City") financial performance provides an overall review of the City's financial activities for the year ended December 31, 2003, within the limitations of the City's modified cash basis accounting. Readers should also review the basic financial statements and notes to enhance their understanding of the City's financial performance.

Financial Highlights

Financial highlights for 2003 are as follows:

- Total net assets decreased \$808,924. This was the result of a decrease in the net assets of governmental activities of \$1,244,706 which represents a 35.2 percent decrease from 2002 and an increase of \$435,782 in the net assets of the business-type activities which represents a 17.86 percent increase from 2002.
- Total Outstanding Debt increased \$3,493,658 or 135.41 percent during 2003.

Using the Basic Financial Statements

This annual report is presented in a format consistent with the presentation requirements of Governmental Accounting Standards Board Statement No. 34, as applicable to the City's modified cash basis of accounting.

Report Components

The statement of net assets and the statement of activities provide information about the cash activities of the City as a whole.

Fund financial statements provide a greater level of detail. Funds are created and maintained on the financial records of the City as a way to segregate money whose use is restricted to a particular specified purpose. These statements present financial information by fund, presenting funds with the largest balances or most activity in separate columns.

The notes to the financial statements are an integral part of the government-wide and fund financial statements and provide expanded explanation and detail regarding the information reported in the statements.

Basis of Accounting

The basis of accounting is a set of guidelines that determine when financial events are recorded. The City has elected to present its financial statements on a modified cash basis of accounting. This basis of accounting is a basis of accounting other than generally accepted accounting principles. Under the City's modified cash basis of accounting, receipts and disbursements are recorded when cash is received or paid.

As a result of using the modified cash basis of accounting, certain assets and their related revenues (such as accounts receivable) and certain liabilities and their related expenses (such as accounts payable) are not recorded in the financial statements. Therefore, when reviewing the financial information and discussion within this report, the reader must keep in mind the limitations resulting from the use of the modified cash basis of accounting.

City of East Cleveland, Ohio
Management's Discussion and Analysis
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Reporting the Government as a Whole

The statement of net assets and the statement of activities reflect how the City of East Cleveland did financially during 2003, within the limitations of modified cash basis accounting. The statement of net assets presents the cash balances and investments of the governmental and business-type activities of the City at year end. The statement of activities compares cash disbursements with program receipts for each governmental program and business-type activity. Program receipts include charges paid by the recipient of the program's goods or services and grants and contributions restricted to meeting the operational or capital requirements of a particular program. General receipts are all receipts not classified as program receipts. The comparison of cash disbursements with program receipts identifies how each governmental function or business-type activity draws from the City's general receipts.

These statements report the City's cash position and the changes in cash position. Keeping in mind the limitations of the modified cash basis of accounting, you can think of these changes as one way to measure the City's financial health. Over time, increases or decreases in the City's cash position is one indicator of whether the City's financial health is improving or deteriorating. When evaluating the City's financial condition, you should also consider other nonfinancial factors as well such as the City's property tax base, the condition of the City's capital assets and infrastructure, the extent of the City's debt obligations, the reliance on non-local financial resources for operations and the need for continued growth in the major local revenue sources such as property and income taxes.

In the statement of net assets and the statement of activities, we divide the City into two types of activities:

Governmental activities. Most of the City's basic services are reported here, including police, fire, streets and parks. State and federal grants and income and property taxes finance most of these activities. Benefits provided through governmental activities are not necessarily paid for by the people receiving them.

Business-type activities. The City has two business-type funds, water and sewer. Business-type activities are financed by a fee charged to the customers receiving the service.

Reporting on the Most Significant Funds of the City of East Cleveland

Fund financial statements provide detail information about the City's major funds – not the City as a whole. The City establishes separate funds to better manage its many activities and to help demonstrate that money that is restricted as to how it may be used is being spent for the intended purpose. The funds of the City are split into three categories: governmental, proprietary and fiduciary.

Governmental Funds All of the City's major activities (excluding the water and sewer funds) are reported in the governmental funds. The governmental fund financial statements provide a detailed view of the City's governmental operations and the basic service it provides. Governmental fund information helps determine whether there are more or less financial resources that can be spent to finance the Government's programs. The Government's significant governmental funds are presented on the financial statements in separate columns. The information for nonmajor funds (funds whose activity or balances are not large enough to warrant separate reporting) is combined and presented in total in a single column. The City has three major funds, the general fund, street resurfacing and the transfer station capital projects funds. The programs reported in governmental funds are closely related to those reported in the governmental activities section of the entity-wide statements. We describe this relationship in reconciliations presented with the governmental fund financial statements.

City of East Cleveland, Ohio
Management's Discussion and Analysis
For the Year Ended December 31, 2003
Unaudited

Proprietary Funds When the City charges customers for the services it provides, these services are generally reported in proprietary funds. When the services are provided to the general public, the activity is reported as an enterprise fund. The City has two enterprise funds, water and sewer.

Fiduciary Funds Fiduciary funds are used to account for resources held for the benefit of parties outside the City. Fiduciary funds are not reflected on the government-wide financial statements because the resources of these funds are not available to support the City's program.

The City of East Cleveland as a Whole

The Statement of Net Assets provides an overall view of the City. Table 1 shows a summary of the City's net assets for 2003 as they compare to 2002.

Table 1
Net Assets

	Governmental Activities		Business-Type Activities		Totals	
	2003	2002	2003	2002	2003	2002
Assets						
Current and Other Assets	\$2,290,950	\$3,535,656	(\$2,004,147)	(\$2,439,929)	\$286,803	\$1,095,727
Net Assets						
Restricted for:						
Capital Projects	710,075	942,041	0	0	710,075	942,041
Debt Service	15,298	11,871	0	0	15,298	11,871
Other Purposes	270,029	584,708	0	0	270,029	584,708
Unrestricted (Deficit)	1,295,548	1,997,036	(2,004,147)	(2,439,929)	(708,599)	(442,893)
<i>Total Net Assets</i>	<u>\$2,290,950</u>	<u>\$3,535,656</u>	<u>(\$2,004,147)</u>	<u>(\$2,439,929)</u>	<u>\$286,803</u>	<u>\$1,095,727</u>

Total assets decreased in 2003 by \$808,924. This decrease was the result of an increased spending in capital for capital projects. The increase is due to \$3,169,708 of construction in progress for the Euclid Avenue project. The Euclid Avenue project, a renovation and improvement project of the main artery of the City, is funded 76.56 percent from Ohio Public Works Commission (OPWC) grants and loans, 18.42 percent from Ohio Department of Transportation (ODOT) grants, 2.95 percent from Community Development Block grants (CDBG), and 2.07 percent from the City.

In order to eliminate the annual net loss in the water and sewer funds, the City contracted with Operations Management International (OMI) in 2002. Under OMI's management, the water and sewer funds could not generate enough revenues to cover expenses and the City paid OMI only if revenues exceeded operating expenses.

Total net assets decreased by \$808,924. This was the result of an increased spending for capital assets.

Table 2 shows the changes in net assets for the year ended December 31, 2003 for both governmental activities and business-type activities. Since this is the first year the City of East Cleveland has prepared financial statements following GASB Statement 34, revenue and expense comparisons to the year 2002 are not available. In future years, when prior-year information is available, a comparative analysis of government-wide data will be presented.

City of East Cleveland, Ohio
Management's Discussion and Analysis
For the Year Ended December 31, 2003
Unaudited

Table 2
Change in Net Assets

	Governmental Activities 2003	Business-Type Activities 2003	Totals 2003
Revenues:			
Program Revenues:			
Charges for Services and Sales	\$2,974,003	\$8,480,007	\$11,454,010
Operating Grants and Contributions	2,679,004	0	2,679,004
Capital Grants and Contributions	50,638	0	50,638
<i>Total Program Revenues</i>	<u>5,703,645</u>	<u>8,480,007</u>	<u>14,183,652</u>
General Revenues:			
Property Taxes	2,088,834	0	2,088,834
Income Taxes	7,883,924	0	7,883,924
Grants and Entitlements	4,053,787	0	4,053,787
Interest	29,746	1,111	30,857
Proceeds of OPWC Loans	3,292,675	0	3,292,675
Miscellaneous	368,695	0	368,695
<i>Total General Revenues</i>	<u>17,717,661</u>	<u>1,111</u>	<u>17,718,772</u>
<i>Total Revenues</i>	<u>23,421,306</u>	<u>8,481,118</u>	<u>31,902,424</u>
Program Expenses:			
General Government	5,298,243	0	5,298,243
Security of Persons and Property	9,379,523	0	9,379,523
Public Health Services	66,122	0	66,122
Leisure Time Activities	281,344	0	281,344
Basic Utility Services	1,190,772	0	1,190,772
Community Development	3,014,890	0	3,014,890
Transportation	916,367	0	916,367
Capital Outlay	3,820,083	0	3,820,083
Interest and Fiscal Charges	698,668	0	698,668
Water Operating	0	3,973,301	3,973,301
Sewer Operating	0	4,072,035	4,072,035
<i>Total Program Expenses</i>	<u>24,666,012</u>	<u>8,045,336</u>	<u>32,711,348</u>
<i>Increase (Decrease) in Net Assets</i>	(1,244,706)	435,782	(808,924)
<i>Net Assets (Deficit) Beginning of Year</i>	3,535,656	(2,439,929)	1,095,727
<i>Net Assets (Deficit) End of Year</i>	<u>\$2,290,950</u>	<u>(\$2,004,147)</u>	<u>\$286,803</u>

City of East Cleveland, Ohio
Management's Discussion and Analysis
For the Year Ended December 31, 2003
Unaudited

Governmental Activities

The funding for governmental activities comes from several different sources, the most significant being the City's municipal income tax. Other prominent sources are property taxes, intergovernmental revenue, charges for services, and interest.

The City's income tax was established to be effective July 1, 1968 at a rate of one percent. This rate was effective until June 30, 1976. Beginning July 1, 1976 the rate was increased to 1.5 percent. On September 1, 1982, the rate increased to 2 percent. It is at that level as of December 31, 2003. The City does not allow any credit of the City's income tax rate for taxes paid to other political subdivisions in Ohio.

The operations of the City's police and fire departments accounts for the largest expenses of the governmental activities, representing 54.22 percent of the total governmental activities expenses. The City's police department is a full-time 24-hour a day, 365-days a year department, with a full-time chief and 42 patrolmen. The fire department is staffed by 50 full time firefighters. The police and fire departments are operated with general fund dollars. The City allocates monies from the inside millage to the police pension and fire pension special revenue funds to pay the employer's portion of retirement and disability benefits to the Ohio Police and Fire Pension Fund.

Business-Type Activities

The City operates a Utility Department that consists of water and sewer services. The largest part of the utilities is the water utility which includes water administration and distribution.

The water utility serves approximately 5,000 customers which include residential and commercial customers. Of the 5,000 customers, 300 are commercial and 540 are homestead customers, who pay a reduced rate.

The City purchases pre-treated water wholesale from the cities of Cleveland and Cleveland Heights and resells it to the residents. Currently the City pays \$21.75 per 1,000 cubic feet of water purchased and resells it to residential and commercial customers for \$45.05 per 1,000 cubic feet. Homestead customers, who represent 10 percent of the City's accounts, pay a reduced rate of \$35.73 per 1,000 cubic feet.

The City pays \$24.75 per 1,000 cubic feet of water purchased to Northeast Ohio Regional Sewer District for sewer treatment services. The City owns and maintains the sewer lines throughout the City. The residential and commercial customers are charged \$43.90 per 1,000 cubic feet of water purchased for these sewer services. Homestead customers pay a reduced rate of \$35.63 per 1,000 cubic feet for these services.

The revenues and expenses for both of these utilities are reported under the business-type activities in Table 2. The revenues are derived primarily from charges for services. In 2003, this amount of \$8,480,007 accounted for 99.99 percent of the revenues. The total expenses for the utilities were \$8,045,336, resulting in an surplus of revenues over expenses in the amount of \$435,782 for the business-type activities.

The City contracted with Operations Management International (OMI) in 2002 to operate the Utility Department. The contract was terminated in 2004 and operation of the Utility Department reverted back to the City.

City of East Cleveland, Ohio
Management's Discussion and Analysis
For the Year Ended December 31, 2003
Unaudited

The City's Funds

Information about the City's governmental funds begins on page 14. These funds are accounted for using the modified cash basis of accounting. All governmental funds had revenues of \$20,128,631 and expenditures of \$24,666,012. The City's governmental funds reflected a decrease in fund balances of \$1,244,706. Overall, the revenue base continues to deteriorate which reflects the unstable financial condition of the City as a whole.

Information about the enterprise funds starts on page 17. These funds are accounted for on an modified cash basis. All enterprise funds had operating revenues of \$8,480,007 and expenses of \$8,003,468. The City's enterprise funds continue to suffer due to deficit net assets in the sewer fund exceeding \$1,955,000.

Budgeting Highlights

The City's budget is prepared according to the laws of the State of Ohio and is based on accounting for certain transactions on a cash basis for receipts, expenditures, and encumbrances. The most significant budgeted fund is the general fund. The legal level of budgetary control is at the department level for the general fund and the fund level for all other funds. Any budgetary modifications at these levels may only be made by an ordinance of City Council. During 2003, two supplemental appropriation measures were authorized by the City Council. Administrative control of the budget is maintained through the establishment of detailed line-item budgets. Transfers are contained in the annual appropriation measure and are permitted once the permanent appropriation measure has been passed by City Council.

Strong emphasis is placed on fund balances. The Finance Director reviews the fund balances on a daily basis. Special attention is paid to the City's most active funds, which are the general, water and sewer funds. Council receives a monthly report showing the beginning fund balance for all funds at the beginning of the year, month-to-date and year-to-date revenues and expenditures, and the current fund balance.

Line item reports are reviewed regularly by the Finance Director. The department heads also monitor their appropriations to ensure the entire operation of the City operates within the appropriations.

For the general fund, original budgeted revenues were \$15,293,364 final budgeted revenues were \$15,036,289 and actual revenue collections were \$15,994,984. The majority of the increase in actual revenue over the final budgeted amounts is due to receiving more income tax revenues than expected.

Also in the general fund, the original budgeted expenditures and final budgeted expenditures were \$15,503,827 and \$16,774,170, respectively. The actual expenditures were \$16,725,747. The reason for the decrease in actual expenditures as compared to budgeted expenditures was all City departments spending less than had been anticipated due to cash flow problems. The City's ending unencumbered cash balance in the general fund was \$1,157,118 above the final budgeted amount.

City of East Cleveland, Ohio
Management's Discussion and Analysis
For the Year Ended December 31, 2003
Unaudited

Debt Administration

The outstanding debt for the City of East Cleveland as of December 31, 2003 was \$6,073,626. This balance reflected an increase of \$3,493,658 from the previous year's balance of \$2,579,968 which is an increase of 135.4 percent.

Outstanding Debt at December 31

	Governmental Activities		Business-Type Activities		Totals	
	2003	2002	2003	2002	2003	2002
OPWC Loans	\$3,292,675	\$0	\$491,945	\$533,813	\$3,784,620	\$533,813
Police and Fire Liability	1,613,563	1,637,647	0	0	1,613,563	1,637,647
Capital Leases	675,443	408,508	0	0	675,443	408,508
Totals	\$5,581,681	\$2,046,155	\$491,945	\$533,813	\$6,073,626	\$2,579,968

During 2003, the City initiated a capital lease for vehicles with an outstanding principal of \$869,118. Three principal payments totaling \$602,183 were made for leases during the year; thus, leaving an outstanding principal balance at December 31, 2003 of \$675,443. This increase in capital leases was offset by a payment of \$350,728 to pay the outstanding balance on a capital lease for an aerial ladder truck. The City also paid principal of \$36,332 on outstanding copier capital leases.

The Ohio Public Works Commission (OPWC) governmental activities loans are comprised of two separate, zero percent interest loans. The purpose of the loans is for the construction and improvement of streets. The loans will be paid over a period of 20 years from the general fund. These loans will not have an accurate repayment schedule until the loans are finalized and the loans will not be finalized until the projects are completed.

The Ohio Public Works Commission (OPWC) business-type activities loans are comprised of four separate, zero percent interest loans. The purpose of these loans is for the construction and improvement of various water and sewer projects, most notable of which is the 1997 water main project. These loans will be repaid over a period of 20 years by user fees. The loans will be retired between 2014 and 2020.

See Note 12 in the financial statements for more information regarding the City's debt.

Current Financial Issues

The City of East Cleveland remains in fiscal emergency, and continues to struggle to maintain a revenue base to deliver services to the citizens of East Cleveland. Over the last eleven years, income tax collections have increased from \$6,630,088, in 1992 to \$7,883,924 in 2003 or 16 percent from the year 1992, on a cash basis.

The population of the City is continuing to decline through loss of residents. Although income tax revenues have increased from 1992 to 2003 the collections have leveled off over the current years. The decline in population is due to various factors including lack of jobs and opportunities and inadequate police and fire protection.

In light of the recent economy, the City has also made a conscious effort to keep operating expenses under \$14,700,000, the lowest spending authorized in over ten years.

City of East Cleveland, Ohio
Management's Discussion and Analysis
For the Year Ended December 31, 2003
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The Administration has made it a priority to review the current fee schedules to determine if the various rates currently being charged are adequate, considering the current operations. These fees include fire inspection fees, civic center fees and water rates. The City intends to monitor its utility rates for all City customers in order to make the utility rates more representative of the actual cost of producing, and administering the utilities. Both the administration and City Council have declared their intention of reviewing rates on a more frequent basis.

Contacting the City's Finance Department

This report is intended to provide the citizens and anyone interested in the financial aspects of the City of East Cleveland a general overview of the financial operations. If there are any questions, please feel free to contact the Finance Director, City of East Cleveland, 14340 Euclid Avenue, East Cleveland, Ohio 44112, Telephone (216) 681-2319.

City of East Cleveland, Ohio
Statement of Net Assets - Modified Cash Basis
December 31, 2003

	Primary Government		Total
	Governmental Activities	Business - Type Activities	
Assets			
Equity in Pooled Cash and Cash Equivalents	\$2,179,032	(\$2,004,147)	\$174,885
Cash and Cash Equivalents in Segregated Accounts	108,636	0	108,636
Cash and Cash Equivalents with Fiscal/Escrow Agents	3,282	0	3,282
<i>Total Assets</i>	<u>\$2,290,950</u>	<u>(\$2,004,147)</u>	<u>\$286,803</u>
Net Assets			
Restricted for:			
Capital Projects	\$710,075	\$0	\$710,075
Debt Service	15,298	0	15,298
Other Purposes	270,029	0	270,029
Unrestricted (Deficit)	1,295,548	(2,004,147)	(708,599)
<i>Total Net Assets</i>	<u>\$2,290,950</u>	<u>(\$2,004,147)</u>	<u>\$286,803</u>

See accompanying notes to the basic financial statements

City of East Cleveland, Ohio
Statement of Activities - Modified Cash Basis
For the Year Ended December 31, 2003

	Program Cash Receipts			
	Cash Disbursements	Charges for Services and Sales	Operating Grants and Contributions	Capital Grants and Contributions
Governmental Activities				
General Government	\$5,298,243	\$703,970	\$0	\$0
Security of Persons and Property	9,379,523	1,299,212	107,919	0
Public Health Services	66,122	0	37,927	0
Leisure Time Activities	281,344	34,391	0	0
Basic Utility Services	1,190,772	147,557	0	0
Community Development	3,014,890	731,441	2,096,888	50,638
Transportation	916,367	57,432	436,270	0
Capital Outlay	3,820,083	0	0	0
Debt Service	698,668	0	0	0
<i>Total Governmental Activities</i>	<u>24,666,012</u>	<u>2,974,003</u>	<u>2,679,004</u>	<u>50,638</u>
Business Type Activities				
Water	3,973,301	4,619,821	0	0
Sewer	4,072,035	3,860,186	0	0
<i>Total Business-Type Activities</i>	<u>8,045,336</u>	<u>8,480,007</u>	<u>0</u>	<u>0</u>
<i>Total Primary Government</i>	<u>\$32,711,348</u>	<u>\$11,454,010</u>	<u>\$2,679,004</u>	<u>\$50,638</u>

General Receipts

Property Taxes Levied for:

 General Purposes

 Capital Projects

 Other Purposes

Income Taxes

Grants and Entitlements not Restricted to Specific Programs

Interest

Proceeds of OPWC Loans

Miscellaneous

Total General Receipts

Change in Net Assets

Net Assets (Deficit) Beginning of Year

Net Assets (Deficit) End of Year

See accompanying notes to the basic financial statements

Net (Disbursements) Receipts and Changes in Net Assets

Primaty Government		
Governmental Activities	Business-Type Activities	Total
(\$4,594,273)	\$0	(\$4,594,273)
(7,972,392)	0	(7,972,392)
(28,195)	0	(28,195)
(246,953)	0	(246,953)
(1,043,215)	0	(1,043,215)
(135,923)	0	(135,923)
(422,665)	0	(422,665)
(3,820,083)	0	(3,820,083)
(698,668)	0	(698,668)
<u>(18,962,367)</u>	<u>0</u>	<u>(18,962,367)</u>
0	646,520	646,520
<u>0</u>	<u>(211,849)</u>	<u>(211,849)</u>
0	434,671	434,671
<u>(18,962,367)</u>	<u>434,671</u>	<u>(18,527,696)</u>
1,662,249	0	1,662,249
328,143	0	328,143
98,442	0	98,442
7,883,924	0	7,883,924
4,053,787	0	4,053,787
29,746	1,111	30,857
3,292,675	0	3,292,675
368,695	0	368,695
<u>17,717,661</u>	<u>1,111</u>	<u>17,718,772</u>
(1,244,706)	435,782	(808,924)
<u>3,535,656</u>	<u>(2,439,929)</u>	<u>1,095,727</u>
<u>\$2,290,950</u>	<u>(\$2,004,147)</u>	<u>\$286,803</u>

City of East Cleveland, Ohio
Statement of Modified Cash Basis Assets and Fund Balances
Governmental Funds
December 31, 2003

	General	Transfer Station	Other Governmental Funds	Total Governmental Funds
Assets				
Equity in Pooled Cash and Cash Equivalents	\$1,295,548	\$562,382	\$321,102	\$2,179,032
Cash and Cash Equivalents in Segregated Accounts	0	0	108,636	108,636
Cash and Cash Equivalents with Fiscal/Escrow Agents	0	0	3,282	3,282
<i>Total Assets</i>	<u>\$1,295,548</u>	<u>\$562,382</u>	<u>\$433,020</u>	<u>\$2,290,950</u>
Fund Balances				
Reserved:				
Reserved for Encumbrances	170,857	0	300,491	471,348
Unreserved:				
Undesignated (Deficit), Reported in:				
General Fund	1,124,691	0	0	1,124,691
Special Revenue Funds	0	0	(12,460)	(12,460)
Debt Service Fund	0	0	15,298	15,298
Capital Projects Funds	0	562,382	129,691	692,073
<i>Total Fund Balances</i>	<u>\$1,295,548</u>	<u>\$562,382</u>	<u>\$433,020</u>	<u>\$2,290,950</u>

See accompanying notes to the basic financial statements

City of East Cleveland, Ohio
Statement of Cash Receipts, Disbursements and Changes in Modified-Cash Basis Fund Balances
Governmental Funds
For the Year Ended December 31, 2003

	General	Street Resurfacing	Transfer Station	Other Governmental Funds	Total Governmental Funds
Receipts					
Municipal Income Taxes	\$7,883,924	\$0	\$0	\$0	\$7,883,924
Property Taxes	1,662,249	0	0	426,585	2,088,834
Charges for Services	855,973	0	0	704,822	1,560,795
Fees, Licenses and Permits	345,465	0	0	52,336	397,801
Fines and Forfeitures	848,359	0	0	167,048	1,015,407
Intergovernmental	4,046,705	27,032	0	2,709,692	6,783,429
Interest	23,861	0	0	5,885	29,746
Miscellaneous	328,448	0	0	40,247	368,695
<i>Total Receipts</i>	<u>15,994,984</u>	<u>27,032</u>	<u>0</u>	<u>4,106,615</u>	<u>20,128,631</u>
Disbursements					
Current:					
General Government	5,213,536	0	0	84,707	5,298,243
Security of Persons and Property	9,136,444	0	0	243,079	9,379,523
Public Health Services	0	0	0	66,122	66,122
Leisure Time Activities	277,534	0	0	3,810	281,344
Basic Utility Services	1,190,772	0	0	0	1,190,772
Community Development	259,889	0	0	2,755,001	3,014,890
Transportation	463,469	0	0	452,898	916,367
Capital Outlay	0	3,397,681	0	422,402	3,820,083
Debt Service:					
Principal Retirement	12,248	0	0	589,935	602,183
Interest and Fiscal Charges	997	0	0	95,488	96,485
<i>Total Disbursements</i>	<u>16,554,889</u>	<u>3,397,681</u>	<u>0</u>	<u>4,713,442</u>	<u>24,666,012</u>
<i>Excess of Receipts Over (Under) Disbursements</i>	<u>(559,905)</u>	<u>(3,370,649)</u>	<u>0</u>	<u>(606,827)</u>	<u>(4,537,381)</u>
Other Financing Sources (Uses)					
OWPC Loans Issued	0	3,292,675	0	0	3,292,675
Transfers In	0	77,974	0	228,663	306,637
Transfers Out	(206,637)	0	0	(100,000)	(306,637)
Advances In	65,054	0	0	0	65,054
Advances Out	0	0	0	(65,054)	(65,054)
<i>Total Other Financing Sources (Uses)</i>	<u>(141,583)</u>	<u>3,370,649</u>	<u>0</u>	<u>63,609</u>	<u>3,292,675</u>
<i>Net Change in Fund Balances</i>	(701,488)	0	0	(543,218)	(1,244,706)
<i>Fund Balances Beginning of Year</i>	<u>1,997,036</u>	<u>0</u>	<u>562,382</u>	<u>976,238</u>	<u>3,535,656</u>
<i>Fund Balances End of Year</i>	<u>\$1,295,548</u>	<u>\$0</u>	<u>\$562,382</u>	<u>\$433,020</u>	<u>\$2,290,950</u>

See accompanying notes to the basic financial statements

City of East Cleveland, Ohio
Statement of Receipts, Disbursements and Changes
In Fund Balance - Budget and Actual -Budget Basis
General Fund
For the Year Ended December 31, 2003

	<u>Budgeted Amounts</u>			Variance with Final Budget Positive (Negative)
	<u>Original</u>	<u>Final</u>	<u>Actual</u>	
Receipts				
Municipal Income Taxes	\$7,623,256	\$7,366,181	\$7,883,924	\$517,743
Property Taxes	1,717,842	1,717,842	1,662,249	(55,593)
Charges for Services	856,000	856,000	855,973	(27)
Fees, Licenses and Permits	290,216	290,216	345,465	55,249
Fines and Forfeitures	595,000	595,000	848,359	253,359
Intergovernmental	3,877,186	3,877,186	4,046,705	169,519
Interest	15,000	15,000	23,861	8,861
Miscellaneous	318,864	318,864	328,448	9,584
<i>Total Receipts</i>	<u>15,293,364</u>	<u>15,036,289</u>	<u>15,994,984</u>	<u>958,695</u>
Disbursements				
Current:				
General Government	4,684,656	5,296,389	5,256,955	39,434
Security of Persons and Property	8,632,594	9,181,337	9,180,552	785
Leisure Time Activities	259,975	279,399	279,399	0
Basic Utility Services	1,100,407	1,261,823	1,258,823	3,000
Community Development	293,405	260,589	260,589	0
Transportation	519,545	481,388	476,184	5,204
Debt Service:				
Principal Retirement	12,248	12,248	12,248	0
Interest and Fiscal Charges	997	997	997	0
<i>Total Disbursements</i>	<u>15,503,827</u>	<u>16,774,170</u>	<u>16,725,747</u>	<u>48,423</u>
<i>Excess of Receipts Under Disbursements</i>	<u>(210,463)</u>	<u>(1,737,881)</u>	<u>(730,763)</u>	<u>1,007,118</u>
Other Financing Sources (Uses)				
Transfers Out	(532,569)	(206,637)	(206,637)	0
Advances In	65,054	65,054	65,054	0
Advances Out	(150,000)	(150,000)	0	150,000
<i>Total Other Financing Sources (Uses)</i>	<u>(617,515)</u>	<u>(291,583)</u>	<u>(141,583)</u>	<u>150,000</u>
<i>Net Change in Fund Balance</i>	(827,978)	(2,029,464)	(872,346)	1,157,118
<i>Fund Balance Beginning of Year</i>	1,885,667	1,885,667	1,885,667	0
Prior Year Encumbrances Appropriated	111,370	111,370	111,370	0
<i>Fund Balance (Deficit) End of Year</i>	<u>\$1,169,059</u>	<u>(\$32,427)</u>	<u>\$1,124,691</u>	<u>\$1,157,118</u>

See accompanying notes to the basic financial statements

City of East Cleveland, Ohio
Statement of Fund Net Assets - Modified Cash Basis
Enterprise Funds
December 31, 2003

	Business-Type Activities		
	Water	Sewer	Total
Assets			
Equity in Pooled Cash and Cash Equivalents	(\$48,373)	(\$1,955,774)	(\$2,004,147)
Net Assets			
Unrestricted (Deficit)	(\$48,373)	(\$1,955,774)	(\$2,004,147)

See accompanying notes to the basic financial statements

City of East Cleveland, Ohio
*Statement of Cash Receipts,
Disbursements and Changes in Fund Net Assets - Modified Cash Basis
Enterprise Funds
For the Year Ended December 31, 2003*

	Business-Type Activities		
	Water	Sewer	Total
Operating Receipts			
Charges for Services	\$4,619,821	\$3,860,186	\$8,480,007
Operating Disbursements			
Personal Services	39,101	56,803	95,904
Contractual Services	3,867,647	3,999,710	7,867,357
Materials and Supplies	8,041	8,681	16,722
Other	16,644	6,841	23,485
<i>Total Operating Disbursements</i>	3,931,433	4,072,035	8,003,468
<i>Operating Income (Loss)</i>	688,388	(211,849)	476,539
Non-Operating Receipts (Disbursements)			
Interest	191	920	1,111
Principal Paid on OPWC Loans	(41,868)	0	(41,868)
<i>Total Non-Operating Receipts (Disbursements)</i>	(41,677)	920	(40,757)
<i>Change in Net Assets</i>	646,711	(210,929)	435,782
<i>Net Assets (Deficit) Beginning of Year</i>	(695,084)	(1,744,845)	(2,439,929)
<i>Net Assets (Deficit) End of Year</i>	(\$48,373)	(\$1,955,774)	(\$2,004,147)

See accompanying notes to the basic financial statements

City of East Cleveland, Ohio
Statement of Fiduciary Assets and Liabilities- Modified Cash Basis
Agency Funds
December 31, 2003

Assets

Equity in Pooled Cash and Cash Equivalents	\$451,519
Cash and Cash Equivalents in Segregated Accounts	<u>483,705</u>
<i>Total Assets</i>	<u><u>\$935,224</u></u>

Liabilities

Deposits Held and Due to Others	<u><u>\$935,224</u></u>
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See accompanying notes to the basic financial statements

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City of East Cleveland, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2003

Note 1 - Reporting Entity

The City of East Cleveland (the City) 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 to be in a state of fiscal emergency in accordance with Section 118.03, Ohio Revised Code. The declaration resulted in the establishment of a Financial Planning and Supervision Commission. The Commission is comprised of the Mayor of the City, Council President, three local financial consultants appointed by the Governor who live or work within the City and two representatives from the State of Ohio. This Commission is required to adopt a financial recovery plan for the City. Once the plan has been adopted, the City's discretion is limited in that all financial activity of the City must be conducted in accordance with the plan.

A reporting entity is composed of the primary government, component units, and other organizations that are included to ensure the financial statements of the City are not misleading. The primary government consists of all funds, departments, boards, and agencies that are not legally separate from the City. For the City of East Cleveland this includes the departments and agencies that provide the following services: police protection, fire fighting and prevention, street maintenance and repairs, public improvements, community development (planning and zoning), public health, culture and recreation, water and sanitation and general administrative and legislative services. Council has direct responsibility for these 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 the deficits of, or provide financial support to the organization; or the City is obligated for the debt of the organization. Component units may also include organizations for which the City approves the budget, the issuance of debt or the levying of taxes. The City has no component units.

Note 2 - Summary of Significant Accounting Policies

As discussed further in Note 2.C, these financial statements are presented on a modified cash basis of accounting. This modified cash basis of accounting differs from accounting principles generally accepted in the United States of America (GAAP). Generally accepted accounting principles include all relevant Governmental Accounting Standards Board (GASB) pronouncements, which have been applied to the extent they are applicable to the modified cash basis of accounting. In the government-wide financial statements and the fund financial statements for the proprietary funds, Financial Accounting Standards Board (FASB) pronouncements and Accounting Principles Board (APB) opinions issued on or before

City of East Cleveland, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2003

November 30, 1989, have been applied, to the extent they are applicable to the modified cash basis of accounting, unless those pronouncements conflict with or contradict GASB pronouncements, in which case GASB prevails. The City does not apply FASB statements issued after November 30, 1989, to its business-type activities and to its enterprise funds. Following are the more significant of the City's accounting policies.

A. Basis of Presentation

The City's basic financial statements consist of government-wide financial statements, including a statement of net assets and a statement of activities, and fund financial statements which provide a more detailed level of financial information.

Government-Wide Financial Statements

The statement of net assets and the statement of activities display information about the City as a whole. These statements include the financial activities of the primary government, except for fiduciary funds. The statements distinguish between those activities of the City that are governmental and those that are considered business-type. Governmental activities generally are financed through taxes, intergovernmental receipts or other nonexchange transactions. Business-type activities are financed in whole or in part by fees charged to external parties for goods or services.

The government-wide statement of net assets presents the cash balance of the governmental and business-type activities of the City at year end. The government-wide statement of activities compares disbursements with program receipts for each program or function of the City's governmental activities and business-type activities. Disbursements are reported by function. A function is a group of related activities designed to accomplish a major service or regulatory program for which the City is responsible. Program receipts include charges paid by the recipient of the goods or services offered by the program, grants and contributions that are restricted to meeting the operational or capital requirements of a particular program, and receipts of interest earned on grants that is required to be used to support a particular program. Receipts which are not classified as program receipts are presented as general receipts of the City, with certain limited exceptions. The comparison of direct disbursements with program receipts identifies the extent to which each governmental program or business activity is self-financing on a modified cash basis or draws from the general receipts of the City.

Fund Financial Statements

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

Proprietary fund statements distinguish operating transactions from nonoperating transactions. Operating receipts generally result from exchange transactions such as charges for services directly relating to the funds' principal services. Operating disbursements include costs of sales and services and administrative costs. The fund statements report all other receipts and disbursements as nonoperating.

City of East Cleveland, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2003

B. Fund Accounting

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

Governmental Funds

Governmental funds are those through which most governmental functions of the City are financed. The following are the City's major governmental funds:

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

Street Resurfacing Fund – The street resurfacing fund accounts for grant monies received from the Ohio Public Works Commission, Ohio Department of Transportation and federal community development block grant, Ohio Public Works Commission loans, and general fund transfers used to improve, construct or repair City Street.

Transfer Station Fund – To account for proceeds from the noise abatement law suit to be used only to update and renovate the transfer station.

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

Proprietary Funds

The City classifies funds financed primarily from user charges for goods or services as proprietary. Proprietary funds are classified as either enterprise funds or internal service funds. The City has no internal service funds. The following are descriptions of the City's enterprise funds:

Water Fund – The water fund accounts for revenues generated from the charges for distribution of water to the residential and commercial users of the City.

Sewer Fund – The sewer fund accounts for sewer services to City individuals and commercial users in the City. The costs of providing these services are financed primarily through user charges.

Fiduciary Funds

Fiduciary fund reporting focuses on net assets and changes in net assets. The fiduciary fund category is split into four classifications: pension trust funds, investment trust funds, private purpose trust funds, and agency funds. Trust funds are used to account for assets held by the City under a trust agreement for individuals, private organizations, or other governments and are not available to support the City's own programs. The City's only fiduciary funds are agency funds which accounts for contractor bid specification deposits, utility consumer deposits, municipal court monies to be distributed to the State and other governments and title VII nutrition deposits.

City of East Cleveland, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2003

C. Basis of Accounting

The City's financial statements are prepared using the modified cash basis of accounting. Except for modifications having substantial support, receipts are recorded in the City's financial records and reported in the financial statements when cash is received rather than when earned and disbursements are recorded when cash is paid rather than when a liability is incurred. Any such modifications made by the City are described in the appropriate section in this note.

As a result of the use of this modified cash basis of accounting, certain assets and their related revenues (such as accounts receivable and revenue for billed or provided services not yet collected) and certain liabilities and their related expenses (such as accounts payable and expenses for goods or services received but not yet paid, and accrued expenses and liabilities) are not recorded in these financial statements.

D. Budgetary Process

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

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

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

E. Cash and Investments

To improve cash management, cash received by the City is pooled and invested. Individual fund integrity is maintained through City records. Interest in the pool is presented as "Equity in Pooled Cash and Cash Equivalents".

Investments of the cash management pool and investments with an original maturity of three months or less at the time of purchase are presented on the financial statements as cash equivalents. Investments with an initial maturity of more than three months that were not purchased from the pool are reported as investments.

City of East Cleveland, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2003

Investments are reported as assets. Accordingly, purchases of investments are not recorded as disbursements, and sales of investments are not recorded as receipts. Gains or losses at the time of sale are recorded as receipts or negative receipts (contra revenue), respectively.

During 2003, the City invested in nonnegotiable certificates of deposit, repurchase agreements, U.S. Treasury bonds, STAR Ohio. Investments are reported at cost, except for the money market fund and STAR Ohio. STAR Ohio is an investment pool, managed by the State Treasurer's Office, which allows governments within the State to pool their funds for investment purposes. STAR Ohio is not registered with the SEC as an investment company, but does operate in a manner consistent with Rule 2a7 of the Investment Company Act of 1940. Investments in STAR Ohio are valued at STAR Ohio's share price, which is the price the investment could be sold for on December 31, 2003.

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 Combined Balance Sheet as "Cash and Cash Equivalents and Fiscal and Escrow Agents."

Interest earnings are allocated to City funds according to State statutes, the Charter and Codified Ordinances of the City, grant requirements, or debt related restrictions. Interest receipts credited to the General Fund during 2003 was \$23,861, all of which is assigned from other City funds.

F. Inventory and Prepaid Items

The City reports disbursements for inventory and prepaid items when paid. These items are not reflected as assets in the accompanying financial statements.

G. Capital Assets

Acquisitions of property, plant and equipment are recorded as disbursements when paid. These items are not reflected as assets in the accompanying financial statements.

H. Interfund Receivables/Payables

The City reports advances-in and advances-out for interfund loans. These items are not reflected as assets and liabilities in the accompanying financial statements.

I. Accumulated Leave

In certain circumstances, such as upon leaving employment or retirement, employees are entitled to cash payments for unused leave. Unpaid leave is not reflected as a liability under the City's modified cash basis of accounting.

J. Employer Contributions to Cost-Sharing Pension Plans

The City recognizes the disbursement for employer contributions to cost-sharing pension plans when they are paid. As described in Notes 10 and 11, the employer contributions include portions for pension benefits and for postretirement health care benefits.

City of East Cleveland, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2003

K. Long-Term Obligations

The City's modified cash basis financial statements do not report liabilities for bonds and other long-term obligations. Proceeds of debt are reported when cash is received and principal and interest payments are reported when paid. Since recording a capital asset when entering into a capital lease is not the result of a cash transaction, neither an other financing source nor a capital outlay expenditure are reported at inception. Lease payments are reported when paid.

L. Net Assets

Net assets are reported as restricted when there are limitations imposed on their use either through enabling legislation or through external restrictions imposed by creditors, grantors, or laws or regulations of other governments. Net assets restricted for other purposes primarily include activities involving the upkeep of the City's roads and bridges, parks and recreation, senior citizens and welfare services. The City's policy is to first apply restricted resources when an expense is incurred for purposes for which both restricted and unrestricted resources are available.

The government-wide statement of net assets reports \$995,402 of restricted net assets, none of which is restricted by enabling legislation.

M. Fund Balance Reserves

The City reserves any portion of fund balances which is not available for appropriation or which is legally segregated for a specific future use. Unreserved fund balance indicates that portion of fund balance which is available for appropriation in future periods. Fund balance reserves have been established for encumbrances.

N. Interfund Transactions

Transfers between governmental and business-type activities on the government-wide financial statements are reported in the same manner as general receipts.

Exchange transactions between funds are reported as receipts in the seller funds and as disbursements in the purchaser funds. Subsidies from one fund to another without a requirement for repayment are reported as interfund transfers. Interfund transfers are reported as other financing sources/uses in governmental funds and after nonoperating receipts/disbursements in proprietary funds. Repayments from funds responsible for particular disbursements to the funds that initially paid for them are not presented in the financial statements.

City of East Cleveland, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2003

Note 3 – Change in Basis of Accounting and Restatement of Fund Equity

A. Change in Basis of Accounting

For 2003, the City ceased to report using generally accepted accounting principles and reported on the modified cash basis as described in Note 2C.

B. Restatement of Fund Equity

The implementation of this change had the following effects on fund equity of the major and nonmajor funds of the City as they were previously reported. The effects on net fund balance of governmental activities are also presented

	General	Transfer Station	Other Governmental Funds	Total Governmental Funds
Fund Balance December 31, 2002	\$2,433,996	\$562,382	\$1,088,222	\$4,084,600
Eliminate Asset Accruals	(8,530,232)	0	(5,005,400)	(13,535,632)
Eliminate Inventory	(44,356)	0	(3,585)	(47,941)
Eliminate Prepaids Items	(54,161)	0	0	(54,161)
Eliminate Interfund Receivables/ Payables	(784,854)	0	65,055	(719,799)
Eliminate Liability Accruals	8,976,643	0	4,831,946	13,808,589
Adjusted Fund Balance December 31, 2002	<u>\$1,997,036</u>	<u>\$562,382</u>	<u>\$976,238</u>	<u>\$3,535,656</u>

The restatement of the business-type activities is presented below:

	Water Fund	Sewer Fund	Total Business-Type Activities
Fund Equity December 31, 2002	\$5,091,940	(\$1,906,712)	\$3,185,228
Eliminate Asset Accruals	(1,439,051)	(1,702,286)	(3,141,337)
Eliminate Interfund Receivables/ Payables	250,000	469,799	719,799
Eliminate Capital Assets	(6,478,695)	(998)	(6,479,693)
Eliminate Liability Accruals	1,346,407	1,395,352	2,741,759
Eliminate OPWC Loans	534,315	0	534,315
Adjusted Net Assets December 31, 2002	<u>(\$695,084)</u>	<u>(\$1,744,845)</u>	<u>(\$2,439,929)</u>

City of East Cleveland, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2003

Note 4 - Accountability and Compliance

A. Compliance

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

Nonmajor Governmental Funds:	
Older Americans	\$233,136
Community Development	590,230
Special Purpose Grant	72,708
Enterprise Funds	
Water	48,373

The budgetary financial statements reflect amount that ordinarily would result in noncompliance citations under the Revised Code Chapter 5705. However, since the City is in fiscal emergency, its financial operations are restricted by the provisions of Chapter 118 rather than Chapter 5705. Citations to Chapter 5705 are therefore presented only for funds which did not contribute to the City being placed in fiscal emergency.

In order to eliminate these deficits, the City is monitoring the drawdowns of grant funds, and in 2003, the City contracted with a private firm to operate the water and sewer departments which should significantly reduce the operating costs.

Ohio Administrative Code, Section 117-2-03 (B), requires the City to prepare its annual financial report in accordance with generally accepted accounting principles. However, the City prepared its financial statements on a modified cash basis, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. The accompanying financial statements omit assets, liabilities, net assets/fund balances, and disclosures that, while material, cannot be determined at this time. The City can be fined and various other administrative remedies may be taken against the City.

Contrary to Section 5705.41 (B), Ohio Revised Code, the following accounts had expenditures plus encumbrances in excess of appropriations.

Fund/Function	Appropriations	Expenditures Plus Encumbrances	Excess
General Fund:			
Income Tax Department	\$767,651	\$767,784	\$133
Nonmajor Governmental Funds:			
Older Americans	452,324	465,901	13,577
Emergency Management Services	0	676,906	676,906
Special Enforcement Unit	0	686	686
Summer Day Camp	15,919	19,832	3,913
COPS Universal	758	169,477	168,719

City of East Cleveland, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2003

The following funds had total original appropriations in excess of estimated resources plus carryover balances, contrary to Section 5705.39, Revised Code. This oversight was identified and corrected by year end in the street, youth services, minority health grant, community development, domestic violence, engineering and building, summer day camp, VOCA grant, COPS universal, and STEP project special revenue funds and the permanent improvement capital projects fund and the water enterprise fund.

Fund/Function	Estimated Revenues Plus Carryover Balance	Appropriations	Excess
Nonmajor Governmental Funds:			
Street	\$551,371	\$584,429	\$33,058
Older Americans	269,934	375,938	106,004
Youth Services	1,064	2,863	1,799
Minority Health Grant	60,838	104,402	43,564
Community Development	918,787	1,400,000	481,213
Special Purpose Grant	733,850	800,000	66,150
Domestic Violence	11,109	12,309	1,200
DARE Grant	41,152	50,000	8,848
Engineering and Building	13,835	25,000	11,165
Summer Day Camp	15,920	20,000	4,080
VOCA Grant	64,507	64,843	336
COPS Universal	758	8,806	8,048
STEP Project	20,319	21,500	1,181
Block Grant 97	26,938	39,143	12,205
Permanent Improvement	639,508	693,000	53,492
Enterprise Funds:			
Water	4,181,613	5,554,500	1,372,887
Sewer	2,816,603	5,791,437	2,974,834

The following funds had total final appropriations in excess of estimated resources plus carryover balances, contrary to Section 5705.39, Revised Code.

Fund/Function	Estimated Revenues Plus Carryover Balance	Appropriations	Excess
Nonmajor Governmental Funds:			
Older Americans	\$393,592	\$507,592	\$114,000
Special Enforcement Unit	291,452	336,185	44,733
Special Purpose Grant	(45,885)	748,724	794,609
Home Program	613,212	1,060,285	447,073
DARE Grant	46,733	82,732	35,999
Block Grant 97	0	109,848	109,848
Enterprise Fund:			
Sewer	2,816,602	5,640,859	2,824,257

City of East Cleveland, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2003

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

Note 5 - Budgetary Basis of Accounting

The budgetary basis as provided by law is based upon accounting for certain transactions on the basis of cash receipts, disbursements, and encumbrances. The Statement of Receipts, Disbursements and Changes in Fund Balance – Budget and Actual – Budget Basis presented for the general fund is prepared on the budgetary basis to provide a meaningful comparison of actual results with the budget. The difference between the budgetary basis and the modified cash basis is (that) outstanding year end encumbrances are treated as disbursements (budgetary basis) rather than as a reservation of fund balance (modified cash basis), and outstanding year end advances are treated as an other financing source or use (budgetary basis) rather than as an interfund receivable or payable (modified cash basis). The encumbrances outstanding at year end (budgetary basis) in the general fund amounted to \$170,858.

Note 6 - Deposits and Investments

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

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

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

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

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

1. United States Treasury bills, bonds, notes, or any other obligation or security issued by the United States Treasury, or any other obligation guaranteed as to principal and interest by the United States;
2. Bonds, notes, debentures, or any other obligation or security 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;

City of East Cleveland, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2003

3. Written repurchase agreements in the securities listed above provided the market value of the securities subject to the repurchase agreement must exceed the principal value of the agreement by at least 2 percent and be marked to market daily, and the term of the agreement must not exceed thirty days;
4. Bonds and other obligations of the State of Ohio or Ohio local governments;
5. No-load money market mutual funds consisting exclusively of obligations described in division (1) or (2) and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions;
6. The State Treasurer's investment pool (STAR Ohio).
7. Certain bankers' acceptance and commercial paper notes for a period not to exceed one hundred and eighty days from the date of purchase in an amount not to exceed twenty-five percent of the interim monies available for investment at any one time.

Protection of the City's deposits is provided by the Federal Deposit Insurance Corporation (FDIC), by eligible securities pledged by the financial institution as security for repayment, by surety company bonds deposited with the finance director 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.

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

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

The following information classifies deposits and investments by categories of risk as defined in GASB Statement No. 3, "Deposits with Financial Institutions, Investments (including Repurchase Agreements), and Reverse Repurchase Agreements".

At year end, the carrying amount of the City's deposits was \$502,380 and the bank balance was \$812,751. Of the bank balance \$145,561 was covered by federal depository insurance and \$667,190 was uninsured and uncollateralized. Although all State statutory requirements for the deposit of money had been followed, noncompliance with federal requirements could potentially subject the City to a successful claim by the FDIC.

The City's investments are categorized to give an indication of the level of risk assumed by the City at year end. Category 1 includes investments that are insured or registered for which the securities are held by the City or its agent in the City's name. Category 2 includes uninsured and unregistered investments for which the securities are held by the counterparty's trust department or agent in the City's name. Category 3 includes uninsured and unregistered investments for which the securities are held by the counterparty, or by its trust department or agent but not in the City's name. The money market fund and

City of East Cleveland, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2003

STAR Ohio are unclassified investments since they are not evidenced by securities that exist in physical or book entry form.

The classification of cash and cash equivalents and investments on the modified cash financial statements based on criteria set forth in GASB Statement No. 9. Cash and cash equivalents are defined to include investments with maturities of three months or less at the time of their purchase by the City.

	Category 3	Carrying And Fair Value
STAR Ohio	\$0	\$40,666
Repurchase Agreements	71,576	71,576
U.S. Treasury Bonds	607,405	607,405
	\$678,981	\$719,647

A reconciliation between the classifications of cash and investments on the modified cash financial statements and the classification per GASB Statement No. 3 is as follows:

	Cash and Cash Equivalents/Deposits	Investments
GASB Statement No. 9	\$1,222,027	\$0
Investments of cash management pool:		
STAR Ohio	(40,666)	40,666
Repurchase Agreements	(607,405)	607,405
U.S. Treasury Bonds	(71,576)	71,576
	\$502,380	\$719,647

Note 7 – Income Taxes

The City levies a municipal income tax of two percent on all salaries, wages, lottery winnings, commissions and other compensation, and net profits earned within the City as well as income 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, as required. Corporations and other individual taxpayers are required to file a declaration annually and quarterly estimated tax payments are recommended.

Income tax proceeds are allocated to the general fund.

Note 8 - Property Taxes

Property taxes include amounts levied against all real property, public utility property, and tangible personal property located in the City. Real property tax receipts received in 2003 represent the collection of 2002 taxes. Real property taxes received in 2003 were levied after October 1, 2003, on the assessed values as of January 1, 2003, the lien date. Assessed values for real property taxes are established by State statute at 35 percent of appraised market value. Real property taxes are payable annually or

City of East Cleveland, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2003

semiannually. If paid annually, payment is due December 31; if paid semiannually, the first payment is due December 31, with the remainder payable by June 20. Under certain circumstances, State statute permits alternate payment dates to be established.

Public utility property tax receipts received in 2003 represent the collection of 2002 taxes. Public utility real and tangible personal property taxes received in 2002 became a lien on December 31, 2002, were levied after October 1, 2003, and are collected with real property taxes. Public utility real property is assessed at 35 percent of true value; public utility tangible personal property is currently assessed at varying percentages of true value.

Tangible personal property tax receipts received in 2003 (other than public utility property) represent the collection of 2002 taxes. Tangible personal property taxes received in 2003 were levied after October 1, 2002, on the true value as of December 31, 2002. Tangible personal property is currently assessed at 25 percent of true value for capital assets and 23 percent for inventory. Amounts paid by multi-county taxpayers are due September 20. Single county taxpayers may pay annually or semiannually. If paid annually, the first payment is due April 30; if paid semiannually, the first payment is due April 30, with the remainder payable by September 20.

The full tax rate for all City operations for the year ended December 31, 2003, was \$12.70 per \$1,000 of assessed value. The assessed values of real property, public utility property, and tangible personal property upon which 2003 property tax receipts were based are as follows:

Real Property	\$175,612,230
Tangible Personal Property	16,107,195
Public Utility Property	12,791,910
Total Assessed Values	<u><u>\$204,511,335</u></u>

Note 9 - Risk Management and Health Care Benefits

A. Risk Management

The City is exposed to various risks of loss related to torts; thefts of, damage to and destruction of assets; errors and omissions; injuries to employees and natural disasters. During 2003, the City contracted with Clarendon National Insurance Company for blanket building, business personal property and general liability with \$18,715,473 as coverage.

Settled 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.

The City is self-insured for vehicle liability coverage. The City accounts for vehicle claims for vehicle lawsuits in the general fund. There were no outstanding claims at December 31, 2003.

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

City of East Cleveland, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2003

B. Health Care Benefits

Medical/surgical, dental and prescription insurance is offered to employees through Medical Mutual Insurance Company of Ohio. Medical Mutual Insurance Company of Ohio offers the traditional and the Super Med Plus plans. For the traditional plan, individual coverage is \$322.67 per month while family coverage is \$815.72. The traditional plan provides medical/surgical coverage with \$100 single deductible on the first 80 percent of coverage services and 100 percent afterwards and a \$200 family deductible on the first 80 percent of covered services and 100 percent afterwards per calendar year. The Super Med Plus plan has no deductible. Individual coverage is \$297.65 per month and family coverage is \$744.46. The Super Med Plus plan provides medical/surgical insurance with no deductible in the network and co-pays for office visits, urgent care and emergency room services. Outside the network, the deductibles and co-payments are the same as the traditional plan.

Life insurance is offered to employees through Business Men's Life Insurance Company. Police receive \$20,000 coverage for \$4.80 per month; firemen receive \$30,000 coverage for \$7.20 per month. For police and fire, the City pays half the monthly premium and the employee pays the other half. All other City employees pay \$.42 per \$1,000 of coverage per month up to a maximum of \$50,000.

Note 10 - Defined Benefit Pension Plans

A. Ohio Public Employees Retirement System

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

OPERS provides retirement, disability, survivor and death benefits, and annual cost of living adjustments to members of the traditional and combined plans. Members of the member-directed plan do not qualify for ancillary benefits. Authority to establish and amend benefits is provided by Chapter 145 of the Ohio Revised Code. OPERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to the Ohio Public Employees Retirement System, 277 East Town Street, Columbus, Ohio 43215-4642.

For the year ended December 31, 2003, members of all three plans, except those in law enforcement or public safety participating in the traditional plan, were required to contribute 8.5 percent of their annual covered salary to fund pension obligations. Members participating in the traditional plan, who were in law enforcement, contributed 10.1 percent of their annual covered salary; members in public safety contributed 9 percent. The City's contribution rate for pension benefits for 2003 was 8.55 percent, except for those plan members in law enforcement or public safety. For those classifications, the City's pension contributions were 11.7 percent of covered payroll. The Ohio Revised Code provides statutory authority for member and employer contributions.

City of East Cleveland, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2003

The City's required contribution for pension obligations to the traditional and combined plans for the years ended December 31, 2003, 2002, and 2001 were \$548,183, \$474,732, and \$406,837, respectively; 78.23 percent has been contributed for 2003 and 100 percent for 2002 and 2001. The City made no contributions to the member-directed plan for 2003.

B. Ohio Police and Fire Pension Fund

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

Plan members are required to contribute 10 percent of their annual covered salary to fund pension obligations while the City is required to contribute 11.75 percent for police officers and 16.25 percent for firefighters. Contributions are authorized by State statute. The City's contributions to OP&F for police for the years ended December 31, 2003, 2002 and 2001 were \$369,491, \$304,072 and \$315,178, respectively. The City's contributions to OP&F for fire for the years ended December 31, 2003, 2002 and 2001 were \$440,091, \$404,202 and \$379,178, respectively. The full amount has been contributed for 2002 and 2001. For police, 78.56 percent has been contributed for 2003 with the remainder being reported as a liability.

Note 11 - Postemployment Benefits

A. Ohio Public Employees Retirement System

The Ohio Public Employees Retirement System (OPERS) provides postretirement health care coverage to age and service retirees with ten or more years of qualifying Ohio service credit with either the traditional or combined plans. Health care coverage for disability recipients and primary survivor recipients is available. Members of the member-directed plan do not qualify for postretirement health care coverage. The health care coverage provided by OPERS is considered an Other Postemployment Benefit (OPB) as described in GASB Statement No. 12, "Disclosure of Information on Postemployment Benefits Other Than Pension Benefits by State and Local Governmental Employers". A portion of each employer's contribution to the traditional or combined plans is set aside for the funding of postretirement health care based on authority granted by State statute. The 2003 employer contribution rate was 13.55 percent of covered payroll (16.7 percent for law enforcement and public safety); 5.00 percent was the portion used to fund health care.

Benefits are advance-funded using the entry age normal actuarial cost method. Significant actuarial assumptions, based on OPERS's latest actuarial review performed as of December 31, 2002, include a rate of return on investments of 8 percent, an annual increase in active employee total payroll of 4 percent compounded annually (assuming no change in the number of active employees), and an additional increase in total payroll of between .5 percent and 6.3 percent based on additional annual pay increases. Health care premiums were assumed to increase 4 percent annually.

City of East Cleveland, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2003

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

The number of active contributing participants in the traditional and combined plans was 364,881. Actual employer contributions for 2003 which were used to fund postemployment benefits were \$78,437. The actual contribution and the actuarial required contribution amounts are the same. OPERS's net assets available for the payment of benefits at December 31, 2003, were \$10.5 billion. The actuarial accrued liability and the unfunded actuarial accrued liability were \$18.7 billion and \$8.7 billion, respectively.

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

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

B. Ohio Police and Fire Pension Fund

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

The health care coverage provided by the retirement system is considered an Other Postemployment Benefit (OPEB) as described in *GASB Statement No. 12*. The Ohio Revised Code provides the authority allowing the Ohio Police and Fire Pension Fund's board of trustees to provide health care coverage and states that health care costs paid from the funds of OP&F shall be included in the employer's contribution rate. Health care funding and accounting is on a pay-as-you-go basis.

The total police employer contribution rate is 19.5 percent of covered payroll and the total firefighter contribution rate is 24 percent of covered payroll, of which 7.75 percent of covered payroll was applied to the postemployment health care program during 2003. In addition, since July 1, 1992, most retirees and survivors have been required to contribute a portion of the cost of their health care coverage through a deduction from their monthly benefit payment. Beginning in 2001, all retirees and survivors have monthly health care contributions.

The City's actual contributions for 2003 that were used to fund postemployment benefits were \$67,666 for police and \$42,961 for firefighters. The OP&F's total health care expense for the year ended December 31, 2003, was \$150,853,148, which was net of member contributions of \$17,207,506. The number of OP&F participants eligible to receive health care benefits as of December 31, 2003, was 13,662 for police and 10,474 for firefighters.

City of East Cleveland, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2003

Note 12 – Debt

Original issue amounts, interest rates and year of maturity of the City’s governmental debt issues were as follows:

Debt Issue	Original Issue	Interest Rate	Year of Maturity
Business-Type Activities			
OPWC Loans:			
1994 Water Main Project Phase I	\$393,740	0 %	2014
1997 Water Main Project Phase II	406,900	0	2017
2000 Brunswick Road Water Main Improvement Project	23,164	0	2019
2000 Forest Hills Water Main Project	25,442	0	2020
Governmental Activities			
OPWC Loans:			
2003 Euclid Avenue Rehabilitation	3,186,729	0	2022
2003 Coventry Road	105,946	0	2025

A schedule of changes in long-term obligations of the City during 2003 follows:

	Outstanding 12/31/2002	Additions	(Reductions)	Outstanding 12/31/2003	Due in One Year
Governmental Activities:					
Capital Leases	\$408,508	\$869,118	(\$602,183)	\$675,443	\$307,138
Police and Fire Pension Liability	1,637,647	0	(24,084)	1,613,563	25,120
OPWC Loan 0%	0	3,292,675	0	3,292,675	0
Total Governmental Activities	<u>2,046,155</u>	<u>4,161,793</u>	<u>(626,267)</u>	<u>5,581,681</u>	<u>332,258</u>
Business Type Activities					
OPWC Loan 0%	533,813	0	(41,868)	491,945	41,868
Total	<u>\$2,579,968</u>	<u>\$4,161,793</u>	<u>(\$668,135)</u>	<u>\$6,073,626</u>	<u>\$374,126</u>

Capital leases will be paid with various revenues from the general, special revenue and capital projects funds. The police and fire pension liability will be paid from the general fund. Enterprise OPWC loans will be paid from the water and sewer funds from user charges.

The City has entered into a contractual agreement for a construction loan from the Ohio Public Works Commission (OPWC). Under the terms of these agreements, the OPWC will reimburse, advance or directly pay the construction costs of approved projects. The OPWC will capitalize administrative costs and construction interest and add them to the total amount of the final loan. These loans will not have an accurate repayment schedule until the loans are finalized and, therefore, are not included in the schedule of future annual debt serviced requirements. The balance of these loans is \$3,292,675.

City of East Cleveland, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2003

The City's overall legal debt margin was \$15,098,047 at December 31, 2003. Principal and interest requirements to retire long-term obligations outstanding at December 31, 2003, are as follows:

	Governmental Activities		Business-Type
	Police and Fire Liability		Activities
	Principal	Interest	OPWC Loans
2004	\$25,120	\$21,678	\$41,368
2005	26,207	20,591	41,368
2006	27,329	19,470	41,368
2007	28,506	18,292	41,368
2008	29,733	17,065	41,368
2009-2013	168,995	13,996	206,341
2014-2018	208,571	11,420	69,905
2019-2023	257,365	9,020	8,859
2024-2028	318,036	7,044	0
2029-2033	392,665	5,673	0
2034-2035	131,036	2,266	0
Total	\$1,613,563	\$146,515	\$491,945

Note 13 - Leases

The City leases vehicles and other equipment under noncancelable leases. The City disbursed \$639,597 to pay principal and interest lease costs for the year ended December 31, 2003. Future lease payments are as follows:

Year	Amount
2004	\$326,741
2005	300,751
2006	75,188
Total Minimum Lease Payments	\$702,680
Less: Amount Representing Interest	(27,237)
Present Value of Minimum Lease	675,443

City of East Cleveland, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2003

Note 14 - Interfund Transfers and Balances

A. Transfers

Interfund transfers for the year ended December 31, 2003 consisted of the following:

Transfer To	Transfers From		
	General	Permanent Improvement	Total
Special Revenue Funds:			
Community Development	\$291	\$100,000	\$100,291
Older Americans	99,271	0	99,271
Homeland Security	2,840	0	2,840
VOCA	14,056	0	14,056
Block Grant 97	12,205	0	12,205
Capital Projects Fund:			
Street Resurfacing	77,974	0	77,974
Total Special Revenue	<u>\$206,637</u>	<u>\$100,000</u>	<u>\$306,637</u>

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

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

B. Interfund Advances

Interfund advances at December 31, 2003 consisted of the older Americans special revenue fund repaying the general fund a \$65,054 advance.

Note 15 – Operations Management International

In order to eliminate the annual net loss in the water and sewer funds, the City contracted with Operations Management International (OMI). During 2003, OMI continued their program to replace faulty meters throughout the City. The replacement was necessary in order to insure that every account is billed properly. OMI also continued to repair leaking pipes and valves that had been identified by a leak detection study. The repairs reduced the amount of water purchased by the City.

City of East Cleveland, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2003

Note 16 – Contractual Commitments

As of December 31, 2003, the City had contractual commitments as follows:

<u>Company</u>	<u>Project</u>	<u>Amount Remaining on Contract</u>
Perk Company, Inc.	Euclid Avenue	\$1,284,884
Michael Benza & Associates, Inc.	Euclid Avenue	301,393

Note 17 – Contingencies

A. Grants

The City receives financial assistance from federal and state agencies in the form of grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and is subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the general fund or other applicable funds. However, in the opinion of management, any such disallowed claims will not have a material adverse effect on the overall financial position of the City at December 31, 2003.

B. Litigation

The City 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.

Note 18 – Subsequent Events

The City of East Cleveland's financial plan expired on December 31, 2002. The City revised it and adopted the revised plan May 5, 2005.

In April 2004, the City and OMI terminated their contractual relationship:

1. There has been no contact with the City since their departure.
2. The possibility of future contact is remote.
3. The probability of any remaining liability being paid to OMI cannot be determined.



Mary Taylor, CPA

Auditor of State

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

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

To the Members of City Council:

We were engaged to audit the financial statements of the governmental activities, business type activities, each major fund, and the aggregate remaining fund information of the City of East Cleveland, Cuyahoga County, Ohio (the City) as of and for the year ended December 31, 2003 and have issued our report thereon dated December 23, 2009, wherein we noted the City utilized a basis of accounting other than that prescribed by Ohio Administrative Code § 117-2-03(B) and the Auditor of State served during the year ended December 31, 2003 as the City's financial supervisor in accordance with procedures established under Ohio Rev. Code §118.05 (G). *Government Auditing Standards* considers this service to impair the independence of the Auditor of State to conduct the audit of the City because the Auditor of State may assume broad management powers, duties, and functions in accordance with Ohio Rev. Code §118.04. We also noted the City restated the December 31, 2002 fund balances for the Governmental Activities and Business-Type Activities. Our report indicated that due to the City's inability to provide accounting system reports to support the amounts presented on the accompanying financial statements we did not express an opinion.

Internal Control Over Financial Reporting

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

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

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

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www.auditor.state.oh.us

Internal Control Over Financial Reporting (Continued)

We consider findings 2003-001 through 2003-004 described in the accompanying schedule of findings and questioned costs to be significant deficiencies in internal control over financial reporting.

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

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and accordingly, would not necessarily disclose all significant deficiencies that are also material weaknesses. We believe finding numbers 2003-001 through 2003-004 are also material weaknesses.

Compliance and Other Matters

As part of our engagement, we tested its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could directly and materially affect the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and accordingly, we do not express an opinion. The results of our tests disclosed instances of noncompliance or other matters that we must report under *Government Auditing Standards* which are described in the accompanying schedule of findings and questioned costs items 2003-003 through 2003-009.

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

We intend this report solely for the information and use of management, members of City Council, and federal awarding agencies and pass-through entities. It is not intended for anyone other than these specified parties.



Mary Taylor, CPA
Auditor of State

December 23, 2009



Mary Taylor, CPA

Auditor of State

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

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

To the Members of City Council:

Compliance

We were engaged to audit 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 apply to each of its major federal programs for the year ended December 31, 2003. Because of a lack of evidence supporting Federal receipts and disbursements, the summary of auditor's results section of the accompanying schedule of findings and questioned costs does not identify the City's major federal programs. The City's management is responsible for complying with the requirements of laws, regulations, contracts, and grants applicable to its major federal program. Our responsibility is to express an opinion on the City's compliance based on our audit.

We were unable to conduct 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 other procedures we considered necessary in the circumstances. Our engagement does not provide a legal determination on the City's compliance with those requirements.

As described in finding 2003-010 in the accompanying schedule of findings and questioned costs, we were unable to determine if the City complied with the requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133, Compliance Supplement*, to determine the completeness and existence of financial records and supporting documentation.

Since the City did not provide the evidence described in the above paragraph, the scope of our auditing procedures was not sufficient to enable us to express, and we do not express, an opinion on whether the City had complied with the requirements in regard to its federal programs for which it had received funding.

The results of our auditing procedures also disclosed an other instance of noncompliance with those requirements that OMB Circular A-133 requires us to report, which is described in the accompanying schedule of findings and questioned costs as item 2003-011.

Internal Control Over Compliance

The City's management is responsible for establishing and maintaining effective internal control over compliance with the 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 directly and materially affect a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over compliance.

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in the City's internal control that might be significant deficiencies or material weaknesses as defined below. However, as discussed below, we identified certain deficiencies in internal control over compliance that we consider to be significant deficiencies.

A *control deficiency* in internal control over compliance exists when the design or operation of a control does not allow management or employees, when performing their assigned functions, to prevent or detect noncompliance with a federal program compliance requirement on a timely basis. A *significant deficiency* is a control deficiency, or combination of control deficiencies, that adversely affects the City's ability to administer a federal program such that there is more than a remote likelihood that the City's internal control will not prevent or detect more-than-inconsequential noncompliance with a federal program compliance requirement. We consider the deficiencies in internal control over compliance described in the accompanying schedule of findings and questioned costs as findings 2003-010 and 2003-012 to be significant deficiencies.

A material weakness is a significant deficiency, or combination of significant deficiencies, that result in more than a remote likelihood that the City's internal control will not prevent or detect material noncompliance with a federal program's compliance requirements. We consider findings 2003-010 and 2003-012 described in the accompanying schedule of findings and questioned costs to be material weaknesses.

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

We intend this report solely for the information and use of management, members of City Council, and federal awarding agencies, and pass-through entities. It is not intended for anyone other than these specified parties.



Mary Taylor, CPA
Auditor of State

December 23, 2009

CITY OF EAST CLEVELAND
 CUYAHOGA COUNTY
 SCHEDULE OF FINDINGS AND QUESTIONED COSTS
 OMB CIRCULAR A - §133 - §505
 FOR THE YEAR ENDED DECEMBER 31, 2003

1. SUMMARY OF AUDITOR'S RESULTS
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<i>(d)(1)(i)</i>	Type of Financial Statement Opinion	Disclaimer of opinion
<i>(d)(1)(ii)</i>	Were there any material control weaknesses reported at the financial statement level (GAGAS)?	Yes
<i>(d)(1)(ii)</i>	Were there any other significant deficiencies in internal control reported at the financial statement level (GAGAS)?	No
<i>(d)(1)(iii)</i>	Was there any reported material noncompliance at the financial statement level (GAGAS)?	Yes
<i>(d)(1)(iv)</i>	Were there any material internal control weaknesses reported for major federal programs?	Yes
<i>(d)(1)(iv)</i>	Were there any other significant deficiencies in internal control reported for major federal programs?	No
<i>(d)(1)(v)</i>	Type of Major Programs' Compliance Opinion	Disclaimer
<i>(d)(1)(vi)</i>	Are there any reportable findings under § .510?	Yes
<i>(d)(1)(vii)</i>	Major Program(list):	Unknown
<i>(d)(1)(viii)</i>	Dollar Threshold: Type A\B Programs	Type A: > \$ 300,000 Type B: all others
<i>(d)(1)(ix)</i>	Low Risk Auditee?	No

**CITY OF EAST CLEVELAND
 CUYAHOGA COUNTY
 SCHEDULE OF FINDINGS AND QUESTIONED COSTS
 OMB CIRCULAR A - §133 - §505
 FOR THE YEAR ENDED DECEMBER 31, 2003
 (Continued)**

2. FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS
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Finding Number	2003-001
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Material Weakness Finding – Maintaining and Safeguarding Employee Timesheets and Pay Rate

The City has instituted control procedures to ensure that recorded payroll transactions are for the performance of services and are properly approved. The City utilizes time cards to document the performance of services rendered. The time cards are signed by the respective employee and are approved by their supervisor and the payroll administrator. The employee’s pay rate is based on a salary schedule or payroll authorization form.

The City could not locate the time cards that support the time and approval of the employees worked. The City was also unable to provide support for the employee’s pay rate. As a result, verification of the time the employees charged for the work performed and their respective pay rate is not feasible.

We recommend the City maintain and safeguard all employee time cards and support for their pay rate.

Official’s Response
 We will correct this in the future.

Finding Number	2003-002
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Material Weakness Finding – Monitoring Service Organization

Effective March 4, 2002, the City entered into a contract with a service organization, CH2M Hill, for the delegation of specific functions related to its water and sewer systems. The Finance Department retained control of the cash collection, bank reconciliation and cash receipt posting procedures and CH2M Hill was responsible for the following:

- Reading all water meters;
- Maintaining the computer records on all metered and non-metered accounts, including making informational changes and balance adjustments; and
- Generating and distributing bills to all water and sewer customers.

The City did not establish procedures to determine whether the service organization had sufficient controls in place and operating effectively to reduce the risk that these services have not been accurately and completely processed in accordance with the City’s contract. The processing of water and sewer billings recorded as charges for services represents 99% of the revenues for the Business Type Activities.

In April 2004, the City cancelled its contract with CH2M Hill and the City’s Water and Sewer Department began performing those functions previously performed by CH2M Hill.

**CITY OF EAST CLEVELAND
 CUYAHOGA COUNTY
 SCHEDULE OF FINDINGS AND QUESTIONED COSTS
 OMB CIRCULAR A - §133 - §505
 FOR THE YEAR ENDED DECEMBER 31, 2003
 (Continued)**

2. FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS
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Finding Number	2003-002
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(Continued)

The City should have developed and implemented procedures to monitor the service organization’s processing of City’s water and sewer accounts for reasonableness. This procedure would have provided assurance over the completeness and accuracy of billing and should have reduced the risk of errors or omissions by the service organization. This may have been accomplished by an annual audit of the service organization. Statement on Auditing Standards (SAS) 70 prescribes standards for reporting on the processing (i.e. control design and operation) of transactions by service organizations. An unqualified Tier II “Report on Policies and Procedures Placed in Operation and Tests of Operating Effectiveness” in accordance with SAS 70, should have provided the City with the appropriate level of assurance that billings are being processed in conformance with the contract.

Official’s Response

We will correct this in the future.

Finding Number	2003-003
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Material Weakness and Noncompliance Finding – Maintaining and Safeguarding the Accounting Records

Ohio Admin. Code § 117-2-02(A)(D) states that all local public offices shall maintain an accounting system and accounting records sufficient to enable the public office to identify, assemble, analyze, classify, record and report its transactions, maintain accountability for the related assets (and liabilities, if generally accepted accounting principles apply), document compliance with finance-related legal and contractual requirements and prepare financial statements required by rule 117-2-03 of the Administrative Code.

Ohio Admin. Code § 117-2-02(D) states that all local public offices may maintain accounting records in a manual or computerized format. The records used should be based on the nature of operations and services the public office provides, and should consider the degree of automation and other factors. Such records should include the following:

- (1) Cash journal, which typically contains the following information: the amount, date, receipt number, check number, account code, purchase order number, and any other information necessary to properly classify the transaction.
- (2) Receipts ledger, which typically assembles and classifies receipts into separate accounts for each type of receipt of each fund the public office uses. The amount, date, name of the payor, purpose, receipt number, and other information required for the transactions can be recorded on this ledger.
- (3) Appropriation ledger, which may assemble and classify disbursements or expenditure/expenses into separate accounts for, at a minimum, each account listed in the appropriation resolution. The amount, fund, date, check number, purchase order number, encumbrance amount, unencumbered balance, amount of disbursement, uncommitted balance of appropriations and any other information required may be entered in the appropriate columns.

**CITY OF EAST CLEVELAND
 CUYAHOGA COUNTY
 SCHEDULE OF FINDINGS AND QUESTIONED COSTS
 OMB CIRCULAR A - §133 - §505
 FOR THE YEAR ENDED DECEMBER 31, 2003
 (Continued)**

2. FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS
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Finding Number	2003-003
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(Continued)

The City utilizes the CMI accounting system to account for all financial transactions, including but not limited to, all receipts, expenditures, adjustments and fund balances. This system is only able to retrieve financial historical data from the previous year. In order for the accounting records to be properly retained beyond that period, the Finance Director is supposed to save and back-up the data on a tape and/or disk once the annual closing procedures have been performed. The Finance Director did not perform the back-up procedures for the 2003 accounting records nor did he retain a hard copy of the records. As a result, the detailed accounting records, including the receipts, expenditures and fund balance reports, are unavailable for 2003 and there is no support for the financial statement amounts.

We recommend the City establish formal policies and procedures on the retention and safeguarding of the accounting records. These procedures should also include establishing effective monitoring controls to ensure the procedures are adhered to.

Official's Response

We will correct this in the future.

Finding Number	2003-004
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Material Weakness and Noncompliance Finding – Maintaining and Safeguarding the Municipal Court Records

Ohio Rev. Code § 1901.31(E) states the clerk of court shall do all of the following:

“...file and safely keep all journals, records, books, and papers belonging or appertaining to the court; record the proceedings of the court; perform all other duties that the judges of the court may prescribe; and keep a book showing all receipts and disbursements, which book shall be open for public inspection at all times.

The clerk shall prepare and maintain a general index, a docket, and other records that the court, by rule, requires, all of which shall be the public records of the court. In the docket, the clerk shall enter, at the time of the commencement of an action, the names of the parties in full, the names of the counsel, and the nature of the proceedings. Under proper dates, the clerk shall note the filing of the complaint, issuing of summons or other process, returns, and any subsequent pleadings. The clerk also shall enter all reports, verdicts, orders, judgments, and proceedings of the court, clearly specifying the relief granted or orders made in each action. The court may order an extended record of any of the above to be made and entered, under the proper action heading, upon the docket at the request of any party to the case, the expense of which record may be taxed as costs in the case or may be required to be prepaid by the party demanding the record, upon order of the court”.

The Clerk of the Municipal Court could not locate the general index, the docket, cash book ledgers and receipt book, as required. As a result, there is no support for the Court's activities. We recommend the Court maintain and safeguard all required Court documents.

Official's Response

We will correct this in the future.

**CITY OF EAST CLEVELAND
 CUYAHOGA COUNTY
 SCHEDULE OF FINDINGS AND QUESTIONED COSTS
 OMB CIRCULAR A - §133 - §505
 FOR THE YEAR ENDED DECEMBER 31, 2003
 (Continued)**

2. FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS
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Finding Number	2003-005
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Material Noncompliance Finding – Retaining the Services of an Actuary to Certify Reserves of the Self Insurance Program

Ohio Rev. Code § 2744.081, requires joint self-insurance programs established under this Section to reserve amounts to cover potential subdivision or employee liability, expense, loss, and damage. It also requires that the programs prepare a report, to be issued by March 31st, in the case of calendar year plans, or within 90 days after the program’s fiscal year-end, in the case of fiscal-year plans, reflecting those reserves and the disbursements made from the reserved funds during the preceding fiscal year. The programs are to secure the services of an actuary to certify that the amounts reserved conform with the law, are computed in accordance with accepted loss reserving standards, and are fairly stated in accordance with sound loss reserving principles.

The City utilizes a self-insurance program for vehicle liability coverage but did not prepare the required report reflecting the reserves and disbursements made nor did it secure the services of an actuary to certify the adequacy of the reserve funding level.

We recommend the City retain the services of an actuary to certify the adequacy of the reserves for the self-insurance program.

Official's Response
 We will correct this in the future.

Finding Number	2003-006
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Material Noncompliance Finding – Maintaining Separate Funds for Federal Programs

Ohio Rev. Code § 5705.09 provides that each subdivision is required to establish a special fund for each class of revenues derived from a source other than the general property tax which legally requires to be used for a particular purpose.

The City received federal funding grants from the Western Reserve Area Agency on Aging. The grants received were for Special Programs for the Aging Title III, Part B-Grants for Supportive Services and Senior Centers, CFDA # 93.044, and Special Programs for the Aging Title III, Part C-Nutrition Services, CFDA # 93.045. The City recorded the receipts of these two federal programs in two special cost centers in fund 2222, which allowed the receipts to be accounted for. However, expenditures for the federal programs are not segregated in fund 2222 and instead are co-mingled, contrary to this requirement. The effect of co-mingling funds is that funds are not segregated in such a manner that demonstrates compliance with special regulations, restrictions, or limitations.

We recommend that separate funds be established for the two federal programs, CFDA # 93.044 and #93.045, received from the Western Reserve Area on Aging.

Official's Response
 We will correct this in the future.

**CITY OF EAST CLEVELAND
 CUYAHOGA COUNTY
 SCHEDULE OF FINDINGS AND QUESTIONED COSTS
 OMB CIRCULAR A - §133 - §505
 FOR THE YEAR ENDED DECEMBER 31, 2003
 (Continued)**

2. FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS
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Finding Number	2003-007
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Material Noncompliance Finding – Negative Cash Fund Balances

Ohio Rev. Code § 5705.10(H) provides that money paid into a fund must be used only for the purposes for which such fund has been established. A fund with a negative fund balance signifies that monies from other funds were used to meet their obligations. A review of District’s general ledger disclosed the following funds had significant negative cash fund balances as of December 31, 2003:

<u>Fund</u>	<u>Unaudited Deficit</u>
Nonmajor Governmental Funds:	
Older Americans	\$233,136
Community Development	590,230
Special Purpose Grant	72,708
Enterprise Fund	
Water	48,373

We recommend that the budget be monitored to ensure that sufficient cash is on hand to pay for obligations and that advances be utilized when legally required.

Official's Response

We will correct this in the future.

Finding Number	2003-008
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Material Noncompliance Finding – Appropriations Exceeded Total Estimated Resources

Ohio Rev. Code § 5705.39 states, in part, the total appropriation from each fund shall not exceed the total estimated revenue available for expenditure therefrom as certified by the county budget commission.

The following funds had total final appropriations in excess of total estimated resources:

<u>Fund</u>	<u>Total Estimated Resources</u>	<u>Appropriations</u>	<u>Excess</u>
Nonmajor Governmental Funds:			
Older Americans	\$393,592	\$507,592	\$114,000
Special Enforcement Unit	291,452	336,185	44,733
Special Purpose Grant	(45,885)	748,724	794,609
Home Program	613,212	1,060,285	447,073
DARE Grant	46,733	82,732	35,999
Block Grant 97	0	109,848	109,848
Enterprise Fund:			
Sewer	2,816,602	5,640,859	2,824,257

**CITY OF EAST CLEVELAND
 CUYAHOGA COUNTY
 SCHEDULE OF FINDINGS AND QUESTIONED COSTS
 OMB CIRCULAR A - §133 - §505
 FOR THE YEAR ENDED DECEMBER 31, 2003
 (Continued)**

2. FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS
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Finding Number	2003-008
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(Continued)

The following funds had total original appropriations in excess of total estimated resources:

<u>Fund</u>	<u>Total Estimated Resources</u>	<u>Appropriations</u>	<u>Excess</u>
Nonmajor Governmental Funds:			
Street	\$551,371	\$584,429	\$33,058
Older Americans	269,934	375,938	106,004
Youth Services	1,064	2,863	1,799
Minority Health Grant	60,838	104,402	43,564
Community Development	918,787	1,400,000	481,213
Special Purpose Grant	733,850	800,000	66,150
Domestic Violence	11,109	12,309	1,200
DARE Grant	41,152	50,000	8,848
Engineering and Building	13,835	25,000	11,165
Summer Day Camp	15,920	20,000	4,080
VOCA Grant	64,507	64,843	336
COPS Universal	758	8,806	8,048
STEP Project	20,319	21,500	1,181
Block Grant 97	26,938	39,143	12,205
Permanent Improvement	639,508	693,000	53,492
Enterprise Funds:			
Water	4,181,613	5,554,500	1,372,887
Sewer	2,816,603	5,791,437	2,974,834

Management should review total estimated resources prior to establishing any appropriation.

Official's Response

We will correct this in the future.

CITY OF EAST CLEVELAND
 CUYAHOGA COUNTY
 SCHEDULE OF FINDINGS AND QUESTIONED COSTS
 OMB CIRCULAR A - §133 - §505
 FOR THE YEAR ENDED DECEMBER 31, 2003
 (Continued)

2. FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS
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Finding Number	2003-009
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Material Noncompliance Finding – Expenditures Plus Encumbrances in Excess of Appropriations

Ohio Rev. Code § 5705.41(B) prohibits a subdivision from making an expenditure unless it has been appropriated as provided in Chapter 5705 of the Revised Code. Ohio Rev. Code § 5705.41(D) 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 expenditure lacking prior certification shall be void.

The following funds had expenditures plus encumbrances in excess of appropriations:

<u>Fund</u>	<u>Appropriations</u>	<u>Expenditures Plus Encumbrances</u>	<u>Excess</u>
General Fund:			
Income Tax Department	\$767,651	\$767,784	\$133
Nonmajor Governmental Funds:			
Older Americans	452,324	465,901	13,577
Emergency Management Services	0	676,906	676,906
Special Enforcement Unit	0	686	686
Summer Day Camp	15,919	19,832	3,913
COPS Universal	758	169,477	168,719

Official's Response

We will correct this in the future.

**CITY OF EAST CLEVELAND
 CUYAHOGA COUNTY
 SCHEDULE OF FINDINGS AND QUESTIONED COSTS
 OMB CIRCULAR A - §133 - §505
 FOR THE YEAR ENDED DECEMBER 31, 2003
 (Continued)**

3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS
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Finding Number	2003-010
CFDA Title and Number	Unknown
Federal Award Number / Year	Unknown
Federal Agency	Unknown
Pass-Through Agency	Unknown

Material Weakness and Material Noncompliance Finding - Questioned Cost For All Payments Made

During our engagement to audit the financial records of the City, we were unable to determine if the City complied with the requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133, *Compliance Supplement*. The City did not provide documentation to enable a review of the compliance with the Circular. A schedule of federal awards expenditures was not prepared; the accounting system reports identifying the transactions related to the federal programs were not provided nor were any support documentation. As a result, we were unable to determine the amounts expended under any federal program and we were unable to examine the details of any transaction that may have represented the expenditure of federal funds. Based on these facts, we are issuing a questioned cost for all payments made.

Officials informed us they will submit a Corrective Action Plan regarding the Federal findings to the Federal Clearinghouse.

Finding Number	2003-011
CFDA Title and Number	Unknown
Federal Award Number / Year	Unknown
Federal Agency	Unknown
Pass-Through Agency	Unknown

Material Noncompliance Finding - Preparation of the Status of Prior Audit Findings

Circular A-133 §___.315(b) states the City is responsible preparation of a summary schedule of prior audit findings which addresses the status of each of the prior audit findings.

The City declined to prepare the required schedule of prior audit findings.

We recommend the City prepare the schedule of prior audit findings and address the status of each prior year finding.

Officials informed us they will submit a Corrective Action Plan regarding the Federal findings to the Federal Clearinghouse.

CITY OF EAST CLEVELAND
CUYAHOGA COUNTY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
OMB CIRCULAR A - §133 - §505
FOR THE YEAR ENDED DECEMBER 31, 2003
(Continued)

3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS
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(Continued)

Finding Number	2003-012
CFDA Title and Number	Unknown
Federal Award Number / Year	Unknown
Federal Agency	Unknown
Pass-Through Agency	Unknown

Material Weakness Finding – Maintaining and Safeguarding the Accounting Records

As reported in finding number 2003-003, the accounting records are unavailable for 2003 and there is no detailed support for the financial statement amounts.

Officials informed us they will submit a Corrective Action Plan regarding the Federal findings to the Federal Clearinghouse.



Mary Taylor, CPA
Auditor of State

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 16, 2010**