



Dave Yost • Auditor of State

CITY OF EAST CLEVELAND
CUYAHOGA COUNTY

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Dave Yost • 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 have audited the accompanying financial statements of the governmental activities, the business-type activities, the major fund, and the aggregate remaining fund information of the City of East, Cuyahoga County, Ohio (the City), as of and for the year ended December 31, 2009 which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

The City did not maintain documentation to support \$1,221,057 recorded as Reserved for Encumbrances.

In our opinion, except for the effect, if any, of adjustments to financial statements amounts or revisions to disclosures that may have been required for the Reserved for Encumbrances described above, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the major fund, and the aggregate remaining fund information of the City of East Cleveland, Cuyahoga County, Ohio, as of December 31, 2009, and the respective changes in financial position and where applicable, cash flows, thereof and the budgetary comparison for the General Fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 19 to the financial statements, the City has accumulated unpaid bills which if processed would result in a negative fund balance. Note 19 describes Management's lack of a formal plan regarding these matters. The financial statements do not include any adjustments that might result from the outcome of this uncertainty.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 12, 2012, on our consideration of the City's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. While we did not opine on the internal control over financial reporting or on compliance, that report describes the scope of our testing of internal control over financial reporting and compliance and the results of that testing. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*. You should read it in conjunction with this report in assessing the results of our audit.

Accounting principles generally accepted in the United States of America require this presentation to include *Management's discussion and analysis*, as listed in the table of contents, to supplement the basic financial statements. Although this information is not part of the basic financial statements, the Governmental Accounting Standards Board considers it essential for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any other assurance.

We conducted our audit to opine on the financial statements that collectively comprise the City's basic financial statements taken as a whole. The federal awards expenditure schedule provides additional information required by the U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the basic financial statements. The federal awards expenditure schedule is management's responsibility, and was derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. This schedule was subject to the auditing procedures we applied to the basic financial statements. We also applied certain additional procedures, including comparing and reconciling this information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, in accordance with auditing standards generally accepted in the United States of America. In our opinion, this information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.



Dave Yost
Auditor of State

December 12, 2012

City of East Cleveland, Ohio
Management's Discussion and Analysis
For the Year Ended December 31, 2009
Unaudited

The discussion and analysis of the City of East Cleveland's financial performance provides an overview of the City's financial activities for the year ended December 31, 2009. The intent of this discussion and analysis is to look at the City's financial performance as a whole; readers should also review the transmittal letter and the basic financial statements and notes to enhance their understanding of the City's financial performance.

Financial Highlights

Highlights for 2009 are as follows:

- In total, the City's net assets increased from the prior year. The City had an increase in municipal income taxes receivable, property taxes receivable and cash and cash equivalents. The decrease in liabilities was due mainly to decreases in notes payable and deferred revenue. The City continues to closely monitor its spending.
- General revenues, mainly municipal income taxes and grants and entitlements, made up a majority of the total revenues for governmental activities in 2009. Overall revenues decreased.
- The City instituted furlough days during 2009 for many of its employees. Employees who are taking furlough days are required to take one day off a pay period.
- The City is continuing to pay down its outstanding debt, which consists of capital leases, OPWC loans, notes payable and the police and fire pension liability.
- The City started construction on several projects involving storm sewers and roads. OPWC grant and CDBG grant money will be used for these projects.
- In order to eliminate deficit fund balances, the City issued \$2.9 million in local government fund notes in 2005. By statute, local government fund notes are only available to entities in fiscal emergency.

Using this Annual Financial Report

This report consists of a series of financial statements and notes to those statements. These statements are prepared and organized in a manner that allows the reader to look at the financial activities of the City of East Cleveland as a whole and also allows the reader to obtain a more detailed view of the City's operations, if they prefer.

The Statement of Net Assets and the Statement of Activities provide information showing the effects of the operations for the year 2009 and how they affected the operations of the City as a whole.

Fund financial statements provide the next level of detail. For governmental funds, these statements tell how services were financed in the short-term as well as what dollars remain for future spending. The fund financial statements also look at the City's most significant funds with all other nonmajor funds presented in total in one column.

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Reporting the City of East Cleveland as a Whole

Statement of Net Assets and Statement of Activities

The Statement of Net Assets and the Statement of Activities provide summary information concerning the financial position and operations of the City as an entity. They provide a good resource for an overall evaluation of the City's financial performance "on one page." These statements include all non-fiduciary assets and liabilities using the accrual basis of accounting. This method takes into account all revenues when they are earned and all expenses when they are incurred. These transactions are booked when they occur and not when the actual cash is received for revenues or when invoices are paid for expenses.

These two statements report the City's net assets and changes in those assets. The change in net assets is important since it is an indication of whether the financial position of the City is improving or declining. However, to properly evaluate the operation of the City, certain non-cash items should be taken into consideration. These items would include the current economic situation as a whole, the current tax base for the City and the age and condition of the City's buildings and infrastructure.

In the Statement of Net Assets and the Statement of Activities, the City is divided into two major activities:

Governmental Activities – Most of the City's programs and services are reported here including, general government, police, fire, leisure time activities and basic utility services.

Business-Type Activities – These services are provided on a fee basis to recover all of the expenses of the goods or services provided. The City's business-type activities are water and sewer.

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

Fund Financial Statements

The analysis of the City's funds begins on page 8. Fund financial reports give a detailed report of the activities within the funds. The City has established many funds. These funds are in existence to provide a multitude of services to the citizens of East Cleveland. Some funds provide for police, fire and emergency medical service protection, streets, water service and sewer service. Some also provide for the purchase of capital assets, while others provide for the payment of principal and interest on debt. Each fund is in some ways an entity unto itself. Each fund has a designated revenue stream and restricted uses for the monies within the fund.

However, these fund financial statements focus on the City's most significant funds. In this report, the focus is on three major funds: general, water, and sewer.

Governmental funds *Governmental funds* are used to account for essentially the same functions reported as *governmental activities* in the government-wide financial statements. However, unlike the government-wide financial statements, governmental funds financial statements focus on *near-term inflows and outflows of expendable resources*, as well as on balances of expendable resources available at the end of the year. Such information may be useful in evaluating a government's near term financing requirements.

City of East Cleveland, Ohio
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Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures and changes in fund balances provide a reconciliation to facilitate this comparison between *governmental funds and governmental activities*.

Proprietary Funds Proprietary funds use the same basis of accounting as business-type activities; therefore, these statements will essentially match.

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

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 2009 as they compare to 2008.

Table 1
Net Assets

	Governmental Activities		Business-Type Activities		Totals	
	2009	Restated 2008	2009	Restated 2008	2009	2008
Assets						
Current and Other Assets	\$14,727,347	\$13,230,959	(\$151,825)	\$36,664	\$14,575,522	\$13,267,623
Capital Assets, Net	18,935,728	19,248,931	513,473	209,561	19,449,201	19,458,492
<i>Total Assets</i>	<u>33,663,075</u>	<u>32,479,890</u>	<u>361,648</u>	<u>246,225</u>	<u>34,024,723</u>	<u>32,726,115</u>
Liabilities						
Current Liabilities	4,763,249	5,196,013	38,583	59,664	4,801,832	5,255,677
Long-Term Liabilities:						
Due Within One Year	617,178	664,152	53,772	48,957	670,950	713,109
Due in More than One Year	6,379,597	6,601,029	351,076	396,873	6,730,673	6,997,902
<i>Total Liabilities</i>	<u>11,760,024</u>	<u>12,461,194</u>	<u>443,431</u>	<u>505,494</u>	<u>12,203,455</u>	<u>12,966,688</u>
Net Assets						
Invested in Capital Assets, Net of Related Debt	15,050,230	15,107,681	513,473	209,561	15,563,703	15,317,242
Restricted for:						
Capital Projects	1,706,036	1,605,694	0	0	1,706,036	1,605,694
Other Purposes	2,060,656	1,210,821	0	0	2,060,656	1,210,821
Unrestricted (Deficit)	3,086,129	2,094,500	(595,256)	(468,830)	2,490,873	1,625,670
<i>Total Net Assets (Deficit)</i>	<u>\$21,903,051</u>	<u>\$20,018,696</u>	<u>(\$81,783)</u>	<u>(\$259,269)</u>	<u>\$21,821,268</u>	<u>\$19,759,427</u>

Total assets increased in 2009. This increase was mainly the result of an increase in municipal income tax receivables in governmental activities. Assets of business-type activities increased primarily due to an increase in nondepreciable capital assets.

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Total liabilities decreased by in 2009. The decrease was mainly due to decreases in deferred revenue sources and notes payables offset by increase in accounts payable and intergovernmental payable.

Table 2 shows the changes in net assets for the year ended December 31, 2009 for both governmental activities and business-type activities. Revenue and expense comparisons to the year 2008 are also shown.

Table 2
Changes in Net Assets

	Governmental Activities		Business-Type Activities		Totals	
	2009	2008	2009	2008	2009	2008
Revenues:						
Program Revenues:						
Charges for Services	\$3,242,759	\$2,966,593	\$546,444	\$1,546,126	\$3,789,203	\$4,512,719
Operating Grants and Contributions	2,251,485	2,020,187	0	0	2,251,485	2,020,187
Capital Grants and Contributions	34,664	320,464	258,240	1,667	292,904	322,131
<i>Total Program Revenues</i>	<u>5,528,908</u>	<u>5,307,244</u>	<u>804,684</u>	<u>1,547,793</u>	<u>6,333,592</u>	<u>6,855,037</u>
General Revenues:						
Property Taxes	2,535,922	2,531,934	0	0	2,535,922	2,531,934
Municipal Income Taxes	6,503,788	6,101,853	0	0	6,503,788	6,101,853
Hotel Tax	2,250	1,803	0	0	2,250	1,803
Grants and Entitlements	5,986,129	6,457,491	0	0	5,986,129	6,457,491
Investment Earnings	3,337	74,101	66	9,239	3,403	83,340
Miscellaneous	727,879	839,717	0	17,737	727,879	857,454
<i>Total General Revenues</i>	<u>15,759,305</u>	<u>16,006,899</u>	<u>66</u>	<u>26,976</u>	<u>15,759,371</u>	<u>16,033,875</u>
<i>Total Revenues</i>	<u>21,288,213</u>	<u>21,314,143</u>	<u>804,750</u>	<u>1,574,769</u>	<u>22,092,963</u>	<u>22,888,912</u>
Program Expenses						
General Government	5,157,135	6,839,353	0	0	5,157,135	6,839,353
Security of Persons and Property	9,404,173	9,845,632	0	0	9,404,173	9,845,632
Transportation	1,999,481	1,709,071	0	0	1,999,481	1,709,071
Community Development	1,452,456	2,128,145	0	0	1,452,456	2,128,145
Leisure Time Activities	238,456	241,157	0	0	238,456	241,157
Basic Utility Services	1,017,997	1,008,222	0	0	1,017,997	1,008,222
Interest and Fiscal Charges	134,160	132,600	0	0	134,160	132,600
Water	0	0	135,862	1,460,097	135,862	1,460,097
Sewer	0	0	491,402	1,315,408	491,402	1,315,408
<i>Total Program Expenses</i>	<u>19,403,858</u>	<u>21,904,180</u>	<u>627,264</u>	<u>2,775,505</u>	<u>20,031,122</u>	<u>24,679,685</u>
<i>Increase (Decrease) in Net Assets</i>						
before Transfers	1,884,355	(590,037)	177,486	(1,200,736)	2,061,841	(1,790,773)
Transfers	0	(1,100,000)	0	1,100,000	0	0
<i>Income from Continuing Operations</i>	<u>1,884,355</u>	<u>(1,690,037)</u>	<u>177,486</u>	<u>(100,736)</u>	<u>2,061,841</u>	<u>(1,790,773)</u>
<i>Discontinued Operations</i>						
Discontinued Water Operations	0	0	0	(8,096,675)	0	(8,096,675)
<i>Increase (Decrease) in Net Assets</i>	<u>1,884,355</u>	<u>(1,690,037)</u>	<u>177,486</u>	<u>(8,197,411)</u>	<u>2,061,841</u>	<u>(9,887,448)</u>
<i>Net Assets (Deficit) Beginning of Year -</i>						
- Restated (See Note 3)	20,018,696	21,708,733	(259,269)	7,938,142	19,759,427	29,646,875
<i>Net Assets (Deficit) End of Year</i>	<u>\$21,903,051</u>	<u>\$20,018,696</u>	<u>(\$81,783)</u>	<u>(\$259,269)</u>	<u>\$21,821,268</u>	<u>\$19,759,427</u>

City of East Cleveland, Ohio
Management's Discussion and Analysis
For the Year Ended December 31, 2009
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, 2009. The City does not allow any credit of the City's income tax rate for taxes paid to other political subdivisions in Ohio. The increase in municipal income tax revenue is due to several small businesses opening in up in the City. The income tax department aggressively pursues non-filing and late filing residents. When the court makes a judgment, the money is collected or a payment plan is established.

Charges for services had a slight increase due to the City collecting more on traffic tickets. During 2009, the City began aggressive measures to attempt to collect on outstanding traffic tickets.

The operations of the City's police and fire departments accounts for the largest expenses of the governmental activities. The City's police department is a full-time 24-hour a day, 365-days a year department, with a full-time chief and 89 patrolmen and dispatchers. The fire department is staffed by 49 full-time firefighters. The police and fire departments are operated with general fund dollars. The City allocates monies from the inside (unvoted) 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.

City employees did not receive raises during 2009. The City also had a reduction in force, mainly in the police department. A furlough program was also started for a majority of City employees towards the end of 2009. Employees were required to take one day of unpaid leave every pay. The City was also very aware of the decrease in revenues and therefore made additional cuts to expenditures where they could.

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Table 3 presents a summary for governmental activities, the total cost of services and the net cost of providing these services.

Table 3
Cost of Services

	Governmental Activities			
	Total Cost of Services	Total Cost of Services	Net Cost of Services	Net Cost of Services
	2009	2008	2009	2008
General Government	\$5,157,135	\$6,839,353	(\$4,315,331)	(\$5,917,723)
Security of Persons and Property	9,404,173	9,845,632	(7,431,042)	(8,044,704)
Transportation	1,999,481	1,709,071	(1,319,771)	(625,095)
Community Development	1,452,456	2,128,145	386,098	(551,854)
Leisure Time Activities	238,456	241,157	(203,083)	(212,468)
Basic Utility Services	1,017,997	1,008,222	(857,661)	(880,310)
Interest and Fiscal Charges	134,160	132,600	(134,160)	(132,600)
Total	\$19,403,858	\$21,904,180	(\$13,874,950)	(\$16,364,754)

Business-Type Activities

While the City has turned over the billing to the City of Cleveland, they still continued to staff a utility department for most of 2009. The City has many delinquent accounts for utility services and throughout 2009 they were still collecting on amounts owed to them.

The City pays \$26.08 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 \$47.72 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.

The City's Funds

A review of the City's governmental funds provides information on near-term flows and balances of expendable resources and serves as a useful measure of a government's net resources. Governmental fund information can be found on page 16 and is accounted for using the modified accrual basis of accounting.

The City's only major governmental fund is the general fund. Fund balance decreased for the general fund from 2008 to 2009. The City was able to decrease its expenditures, but revenues also decreased.

Information about the proprietary funds starts on page 21. These funds are accounted for on an accrual basis. All enterprise funds had an increase in net assets for 2009.

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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 and object level for all budgeted funds. Any budgetary modifications at these levels may only be made by an ordinance of 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.

For the general fund actual revenues fell way below original and final budgeted revenues. The economy continued to decline for much of 2009. The City was very aware of the downward slide of revenues and was able to keep actual expenditures well below final budgeted expenditures. Due to the City's leaders constant monitoring of its finances, the City's ending unencumbered cash balance in the general fund was only slightly less than the previous years.

Capital Assets and Debt Administration

Capital Assets

Table 4
Capital Assets at December 31
(Net of Depreciation)

	Governmental Activities		Business-Type Activities		Totals	
	2009	2008	2009	2008	2009	2008
Land	\$920,260	\$920,260	\$0	\$0	\$920,260	\$920,260
Construction in Progress	959,985	552,647	315,123	0	1,275,108	552,647
Buildings and Improvements	1,168,589	1,224,559	0	0	1,168,589	1,224,559
Equipment	272,508	296,573	15,040	18,232	287,548	314,805
Vehicles	742,814	891,513	40,007	43,857	782,821	935,370
Infrastructure	14,871,572	15,363,379	143,303	147,472	15,014,875	15,510,851
Totals	\$18,935,728	\$19,248,931	\$513,473	\$209,561	\$19,449,201	\$19,458,492

Total capital assets for the City of East Cleveland decreased slightly from the 2008. Total governmental activities capital assets primarily decreased due to more depreciation taken in 2009 than new capital assets being acquired. This was offset by an increase to the City's construction in progress for storm sewer and

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road improvement projects. Total business-type activities capital assets increased due to the addition of construction in progress for a sanitary sewer installation. See Note 8 in the financial statements for more information regarding the City's capital assets.

Debt

The outstanding debt for the City of East Cleveland as of December 31, 2009 has decreased.

Table 5
Outstanding Debt at December 31

	Governmental Activities		Business-Type Activities		Totals	
		Restated		Restated		Restated
	2009	2008	2009	2008	2009	2008
Capital Leases	\$300,109	\$359,390	\$0	\$0	\$300,109	\$359,390
Police and Fire Liability	1,445,826	1,476,839	0	0	1,445,826	1,476,839
OPWC Loans	3,585,389	3,781,860	363,684	405,553	3,949,073	4,187,413
Notes Payable	1,504,285	1,868,485	0	0	1,504,285	1,868,485
Totals	<u>\$6,835,609</u>	<u>\$7,486,574</u>	<u>\$363,684</u>	<u>\$405,553</u>	<u>\$7,199,293</u>	<u>\$7,892,127</u>

During 2009, the City has paid off the backhoe lease and entered into several new copier leases.

The Ohio Public Works Commission (OPWC) governmental activities loans are comprised of three 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 permanent improvement capital projects fund and the street special revenue fund.

The Ohio Public Works Commission (OPWC) business-type activities loans are comprised of five separate, zero percent interest loans. The purpose of these loans is for the construction and improvement of various water 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 Notes 11 and 12 in the financial statements for more information regarding the City's debt.

Current Financial Issues

The City of East Cleveland continues to struggle to maintain a revenue base to deliver basic services to the citizens of East Cleveland.

The population of the City continues to decline at an average rate of 323 residents per year from 2000.

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 and civic center fees. The City is monitoring 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.

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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 Irene Crowell, Finance Director, City of East Cleveland, 14340 Euclid Avenue, East Cleveland, Ohio 44112, Telephone (216) 681-2319, e-mail icrowell@eastcleveland.org.

Basic Financial Statements

City of East Cleveland, Ohio

Statement of Net Assets

December 31, 2009

	Governmental Activities	Business-Type Activities	Total
Assets			
Equity in Pooled Cash and Cash Equivalents	\$3,822,569	\$15,554	\$3,838,123
Cash and Cash Equivalents In Segregated Accounts	109,587	0	109,587
Accounts Receivable	444,483	368,348	812,831
Internal Balances	558,618	(558,618)	0
Intergovernmental Receivable	2,477,963	22,891	2,500,854
Prepaid Items	8,878	0	8,878
Materials and Supplies Inventory	12,309	0	12,309
Municipal Income Taxes Receivable	3,258,143	0	3,258,143
Property Taxes Receivable	4,034,797	0	4,034,797
Nondepreciable Capital Assets	1,880,245	315,123	2,195,368
Depreciable Capital Assets, Net	17,055,483	198,350	17,253,833
<i>Total Assets</i>	<u>33,663,075</u>	<u>361,648</u>	<u>34,024,723</u>
Liabilities			
Accounts Payable	311,183	5,139	316,322
Accrued Wages	257,371	12,108	269,479
Contracts Payable	5,380	0	5,380
Intergovernmental Payable	1,362,945	21,336	1,384,281
Accrued Interest Payable	20,934	0	20,934
Deferred Revenue	1,285,481	0	1,285,481
Notes Payable	1,504,285	0	1,504,285
Matured Pension Loans Payable	15,670	0	15,670
Long-Term Liabilities:			
Due Within One Year	617,178	53,772	670,950
Due In More Than One Year	6,379,597	351,076	6,730,673
<i>Total Liabilities</i>	<u>11,760,024</u>	<u>443,431</u>	<u>12,203,455</u>
Net Assets			
Invested in Capital Assets, Net of Related Debt	15,050,230	513,473	15,563,703
Restricted for:			
Capital Projects	1,706,036	0	1,706,036
Local Law Enforcement	218,451	0	218,451
Home Program	450,637	0	450,637
Emergency Medical Services	1,162,711	0	1,162,711
Other Purposes	228,857	0	228,857
Unrestricted (Deficit)	3,086,129	(595,256)	2,490,873
<i>Total Net Assets (Deficit)</i>	<u>\$21,903,051</u>	<u>(\$81,783)</u>	<u>\$21,821,268</u>

See accompanying notes to the basic financial statements

City of East Cleveland, Ohio
Statement of Activities
For the Year Ended December 31, 2009

	Program Revenues			
	Expenses	Charges for Services and Operating Assessments	Operating Grants and Contributions	Capital Grants and Contributions
Governmental Activities:				
General Government	\$5,157,135	\$841,804	\$0	\$0
Security of Persons and Property	9,404,173	1,949,723	23,408	0
Transportation	1,999,481	198,489	446,557	34,664
Community Development	1,452,456	57,034	1,781,520	0
Leisure Time Activities	238,456	35,373	0	0
Basic Utility Services	1,017,997	160,336	0	0
Interest and Fiscal Charges	134,160	0	0	0
<i>Total Governmental Activities</i>	<u>19,403,858</u>	<u>3,242,759</u>	<u>2,251,485</u>	<u>34,664</u>
Business-Type Activities:				
Water	135,862	2,516	0	0
Sewer	491,402	543,928	0	258,240
<i>Total Business-Type Activities</i>	<u>627,264</u>	<u>546,444</u>	<u>0</u>	<u>258,240</u>
<i>Total</i>	<u>\$20,031,122</u>	<u>\$3,789,203</u>	<u>\$2,251,485</u>	<u>\$292,904</u>

General Revenues

Property Taxes Levied for:

 General Purposes

 Capital Projects

 Police Pension Liability

 Fire Pension Liability

Municipal Income Taxes Levied for

 General Purposes

Hotel Tax

Grants and Entitlements not Restricted to Specific Programs

Interest

Other

Total General Revenues

Change in Net Assets

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

Net Assets (Deficit) End of Year

See accompanying notes to the basic financial statements

Net (Expense) Revenue and Changes in Net Assets		
Primary Government		
Governmental Activities	Business-Type Activities	Total
(\$4,315,331)	0	(\$4,315,331)
(7,431,042)	0	(7,431,042)
(1,319,771)	0	(1,319,771)
386,098	0	386,098
(203,083)	0	(203,083)
(857,661)	0	(857,661)
(134,160)	0	(134,160)
(13,874,950)	0	(13,874,950)
0	(133,346)	(133,346)
0	310,766	310,766
0	177,420	177,420
(13,874,950)	177,420	(13,697,530)
2,039,650	0	2,039,650
381,748	0	381,748
57,262	0	57,262
57,262	0	57,262
6,503,788	0	6,503,788
2,250	0	2,250
5,986,129	0	5,986,129
3,337	66	3,403
727,879	0	727,879
15,759,305	66	15,759,371
1,884,355	177,486	2,061,841
20,018,696	(259,269)	19,759,427
\$21,903,051	(\$81,783)	\$21,821,268

City of East Cleveland, Ohio

Balance Sheet

Governmental Funds

December 31, 2009

	General	Other Governmental Funds	Total Governmental Funds
Assets			
Equity in Pooled Cash and Cash Equivalents	\$283,182	\$3,539,387	\$3,822,569
Cash and Cash Equivalents			
In Segregated Accounts	0	109,587	109,587
Accounts Receivable	30,808	413,675	444,483
Interfund Receivable	1,145,359	0	1,145,359
Intergovernmental Receivable	1,758,353	719,610	2,477,963
Prepaid Items	8,878	0	8,878
Materials and Supplies Inventory	7,096	5,213	12,309
Municipal Income Tax Receivable	3,258,143	0	3,258,143
Property Taxes Receivable	3,208,775	826,022	4,034,797
<i>Total Assets</i>	<u>\$9,700,594</u>	<u>\$5,613,494</u>	<u>\$15,314,088</u>
Liabilities			
Accounts Payable	\$264,279	\$46,904	\$311,183
Accrued Wages	237,841	19,530	257,371
Contracts Payable	0	5,380	5,380
Intergovernmental Payable	1,335,115	27,830	1,362,945
Interfund Payable	0	586,741	586,741
Matured Pension Loans Payable	0	15,670	15,670
Notes Payable	1,504,285	0	1,504,285
Deferred Revenue	7,245,276	1,463,322	8,708,598
<i>Total Liabilities</i>	<u>10,586,796</u>	<u>2,165,377</u>	<u>12,752,173</u>
Fund Balances			
Reserved for Encumbrances	139,979	1,081,078	1,221,057
Unreserved			
Undesignated, Reported in:			
General Fund (Deficit)	(1,026,181)	0	(1,026,181)
Special Revenue Funds	0	1,194,596	1,194,596
Debt Service Fund	0	12,445	12,445
Capital Projects Funds	0	1,159,998	1,159,998
<i>Total Fund Balances (Deficit)</i>	<u>(886,202)</u>	<u>3,448,117</u>	<u>2,561,915</u>
<i>Total Liabilities and Fund Balances</i>	<u>\$9,700,594</u>	<u>\$5,613,494</u>	<u>\$15,314,088</u>

See accompanying notes to the basic financial statements

City of East Cleveland, Ohio
*Reconciliation of Total Governmental Fund Balances to
 Net Assets of Governmental Activities
 December 31, 2009*

Total Governmental Funds Balances	\$2,561,915
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*Amounts reported for governmental activities in the
 statement of net assets are different because*

Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.	18,935,728
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Other long-term assets are not available to pay for current period expenditures and therefore are deferred in the funds:

Property Taxes	2,749,316
Municipal Income Taxes	2,860,786
Intergovernmental	1,813,015

Total	7,423,117
-------	-----------

In the statement of activities, interest is accrued on outstanding liabilities, whereas in governmental funds, an interest expenditure is reported when due.	(20,934)
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Long-term liabilities are not due and payable in the current period and therefore are not reported in the funds:

OPWC Loans	(3,585,389)
Capital Leases	(300,109)
Police and Fire Pension Liability	(1,445,826)
Compensated Absences	(1,665,451)

Total	(6,996,775)
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<i>Net Assets of Governmental Activities</i>	\$21,903,051
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See accompanying notes to the basic financial statements

City of East Cleveland, Ohio
Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds
For the Year Ended December 31, 2009

	General	Other Governmental Funds	Total Governmental Funds
Revenues			
Property Taxes	\$1,728,902	\$360,074	\$2,088,976
Hotel Tax	2,250	0	2,250
Municipal Income Taxes	5,515,267	0	5,515,267
Special Assessments	312,944	0	312,944
Intergovernmental	5,844,768	1,904,914	7,749,682
Fees, Licenses and Permits	253,316	98,127	351,443
Fines and Forfeitures	1,151,959	115,984	1,267,943
Rentals	0	8,247	8,247
Charges for Services	901,751	400,431	1,302,182
Interest	2,304	1,033	3,337
Other	727,879	0	727,879
<i>Total Revenues</i>	<u>16,441,340</u>	<u>2,888,810</u>	<u>19,330,150</u>
Expenditures			
Current:			
General Government	4,699,900	64,374	4,764,274
Security of Persons and Property	8,953,226	261,730	9,214,956
Transportation	1,274,106	432,883	1,706,989
Community Development	309,120	1,570,720	1,879,840
Leisure Time Activities	225,136	0	225,136
Basic Utility Services	1,017,997	0	1,017,997
Capital Outlay	29,094	99,850	128,944
Debt Service:			
Principal Retirement	23,875	291,984	315,859
Interest and Fiscal Charges	89,762	45,984	135,746
<i>Total Expenditures</i>	<u>16,622,216</u>	<u>2,767,525</u>	<u>19,389,741</u>
<i>Excess of Revenues Over (Under) Expenditures</i>	(180,876)	121,285	(59,591)
Other Financing Sources			
Inception of a Capital Lease	29,094	0	29,094
<i>Net Change in Fund Balances</i>	(151,782)	121,285	(30,497)
<i>Fund Balances (Deficit) Beginning of Year - Restated (See Note 3)</i>	<u>(734,420)</u>	<u>3,326,832</u>	<u>2,592,412</u>
<i>Fund Balances (Deficit) End of Year</i>	<u><u>(\$886,202)</u></u>	<u><u>\$3,448,117</u></u>	<u><u>\$2,561,915</u></u>

See accompanying notes to the basic financial statements

City of East Cleveland, Ohio
*Reconciliation of the Statement of Revenues, Expenditures and Changes
in Fund Balances of Governmental Funds to the Statement of Activities
For the Year Ended December 31, 2009*

Net Change in Fund Balances - Total Governmental Funds (\$30,497)

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

Governmental funds report capital outlays as expenditures.

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

Capital Outlay	554,027	
Depreciation	(867,230)	
Total		(313,203)

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

Property Taxes	665,269	
Municipal Income Taxes	988,521	
Intergovernmental	304,273	
Total		1,958,063

Other financing sources, such as inception of capital lease, in the governmental funds increase long-term liabilities in the statement of net assets. (29,094)

Repayment of long-term liabilities is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets. 315,859

In the statement of activities interest is accrued whereas in governmental funds, an interest expenditure is reported when due. 1,586

Some expenses, such as compensated absences, reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds. (18,359)

Change in Net Assets of Governmental Activities \$1,884,355

See accompanying notes to the basic financial statements

City of East Cleveland, Ohio
Statement of Revenues, Expenditures and Changes
In Fund Balance - Budget (Non-GAAP Basis) and Actual
General Fund
For the Year Ended December 31, 2009

	Budgeted Amounts		Actual	Variance with
	Original	Final		Final Budget
				Positive
				(Negative)
Revenues				
Property Taxes	\$1,612,054	\$1,588,055	\$1,510,579	(\$77,476)
Hotel Tax	2,382	2,351	2,250	(101)
Municipal Income Taxes	5,806,785	5,730,648	5,484,860	(245,788)
Special Assessments	331,312	326,968	312,944	(14,024)
Intergovernmental	6,399,274	6,318,231	6,056,606	(261,625)
Fees, Licenses and Permits	268,184	264,668	253,316	(11,352)
Fines and Forfeitures	1,219,751	1,203,758	1,152,129	(51,629)
Charges for Services	950,702	938,237	897,996	(40,241)
Interest	2,439	2,407	2,304	(103)
Other	798,798	788,324	754,513	(33,811)
<i>Total Revenues</i>	17,391,681	17,163,647	16,427,497	(736,150)
Expenditures				
Current:				
General Government	6,777,389	6,777,389	4,710,336	2,067,053
Security of Persons and Property	9,092,761	9,092,761	8,783,795	308,966
Transportation	1,516,655	1,516,655	1,285,408	231,247
Community Development	368,699	368,699	305,038	63,661
Leisure Time Activities	305,013	305,013	252,702	52,311
Basic Utility Services	1,224,161	1,224,161	893,056	331,105
Debt Service:				
Principal Retirement	123,902	123,902	364,200	(240,298)
Interest and Fiscal Charges	522,771	522,771	84,321	438,450
<i>Total Expenditures</i>	19,931,351	19,931,351	16,678,856	3,252,495
<i>Excess of Revenues Under Expenditures</i>	(2,539,670)	(2,767,704)	(251,359)	2,516,345
Other Financing Uses				
Transfers Out	(454,131)	(454,131)	0	454,131
<i>Net Change in Fund Balance</i>	(2,993,801)	(3,221,835)	(251,359)	2,970,476
<i>Fund Balance Beginning of Year</i>	1,322,899	1,322,899	1,322,899	0
Prior Year Encumbrances Appropriated	148,163	148,163	148,163	0
<i>Fund Balance (Deficit) End of Year</i>	(\$1,522,739)	(\$1,750,773)	\$1,219,703	\$2,970,476

See accompanying notes to the basic financial statements

City of East Cleveland, Ohio

Statement of Fund Net Assets

Enterprise Funds

December 31, 2009

	Business-Type Activities		
	Water	Sewer	Total
Assets			
<i>Current Assets:</i>			
Equity in Pooled Cash and Cash Equivalents	\$15,554	\$0	\$15,554
Accounts Receivable	0	368,348	368,348
Intergovernmental Receivable	0	22,891	22,891
<i>Total Current Assets</i>	15,554	391,239	406,793
<i>Noncurrent Assets:</i>			
Nondepreciable Capital Assets	0	315,123	315,123
Depreciable Capital Assets, Net	152,067	46,283	198,350
<i>Total Assets</i>	167,621	752,645	920,266
Liabilities			
<i>Current Liabilities:</i>			
Accounts Payable	0	5,139	5,139
Accrued Wages	2,507	9,601	12,108
Intergovernmental Payable	19,871	1,465	21,336
Interfund Payable	0	558,618	558,618
Compensated Absences Payable	7,323	4,580	11,903
OPWC Loans Payable	41,869	0	41,869
<i>Total Current Liabilities</i>	71,570	579,403	650,973
<i>Long-Term Liabilities:</i>			
Compensated Absences Payable	16,119	13,142	29,261
OPWC Loans Payable	321,815	0	321,815
<i>Total Long-Term Liabilities</i>	337,934	13,142	351,076
<i>Total Liabilities</i>	409,504	592,545	1,002,049
Net Assets			
Invested in Capital Assets, Net of Related Debt	152,067	361,406	513,473
Unrestricted (Deficit)	(393,950)	(201,306)	(595,256)
<i>Total Net Assets (Deficit)</i>	(\$241,883)	\$160,100	(\$81,783)

See accompanying notes to the basic financial statements

City of East Cleveland, Ohio
*Statement of Revenues,
Expenses and Changes in Fund Net Assets
Enterprise Funds
For the Year Ended December 31, 2009*

	Business-Type Activities		
	Water	Sewer	Total
Operating Revenues			
Charges for Services	\$2,516	\$543,928	\$546,444
Operating Expenses			
Personal Services	13,012	398,871	411,883
Materials and Supplies	18,178	4,992	23,170
Contractual Services	83,491	65,413	148,904
Depreciation	6,163	5,048	11,211
Other	15,018	17,078	32,096
<i>Total Operating Expenses</i>	135,862	491,402	627,264
<i>Operating Income (Loss)</i>	(133,346)	52,526	(80,820)
Non-Operating Revenues			
Capital Grants	0	258,240	258,240
Interest	32	34	66
<i>Total Non-Operating Revenues</i>	32	258,274	258,306
<i>Change in Net Assets</i>	(133,314)	310,800	177,486
<i>Net Assets (Deficit) Beginning of Year</i>	(108,569)	(150,700)	(259,269)
<i>Net Assets (Deficit) End of Year</i>	(\$241,883)	\$160,100	(\$81,783)

See accompanying notes to the basic financial statements

City of East Cleveland, Ohio
Statement of Cash Flows
Enterprise Funds
For the Year Ended December 31, 2009

	Business-Type Activities		
	Water	Sewer	Total
Increase (Decrease) in Cash and Cash Equivalents			
Cash Flows from Operating Activities			
Cash Received from Customers	\$383,656	\$549,386	\$933,042
Cash Payments to Employees for Services	(44,370)	(388,171)	(432,541)
Cash Payments for Goods and Services	(106,344)	(65,266)	(171,610)
Other Cash Payments	(15,018)	(17,078)	(32,096)
<i>Net Cash Provided by Operating Activities</i>	<u>217,924</u>	<u>78,871</u>	<u>296,795</u>
Cash Flows from Noncapital Financing Activities			
Operating Grants Received	0	258,240	258,240
Advances Out	(160,533)	(22,022)	(182,555)
<i>Net Cash Used in Noncapital Financing Activities</i>	<u>(160,533)</u>	<u>236,218</u>	<u>75,685</u>
Cash Flows from Capital and Related Financing Activities			
Related Financing Activities			
Principal Paid on OPWC Loans	(41,869)	0	(41,869)
Payments for Capital Acquisitions	0	(315,123)	(315,123)
<i>Net Cash Used for Capital and Related Financing Activities</i>	<u>(41,869)</u>	<u>(315,123)</u>	<u>(356,992)</u>
Cash Flows from Investing Activities			
Interest on Investments	32	34	66
<i>Net Increase in Cash and Cash Equivalent</i>	15,554	0	15,554
<i>Cash and Cash Equivalents Beginning of Year</i>	<u>0</u>	<u>0</u>	<u>0</u>
<i>Cash and Cash Equivalents End of Year</i>	<u>\$15,554</u>	<u>\$0</u>	<u>\$15,554</u>

(continued)

City of East Cleveland, Ohio
Statement of Cash Flows
Enterprise Funds (continued)
For the Year Ended December 31, 2009

	Business-Type Activities		
	Water	Sewer	Total
Reconciliation of Operating Income to Net Cash Provided by Operating Activities			
Operating Income (Loss)	(\$133,346)	\$52,526	(\$80,820)
Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities			
Depreciation	6,163	5,048	11,211
(Increase) Decrease in Assets:			
Accounts Receivable	381,140	28,349	409,489
Intergovernmental Receivable	0	(22,891)	(22,891)
Increase (Decrease) in Liabilities:			
Accounts Payable	(4,695)	5,139	444
Accrued Wages	(4,497)	11	(4,486)
Compensated Absences Payable	(9,786)	10,673	887
Intergovernmental Payable	(17,055)	16	(17,039)
<i>Total Adjustments</i>	351,270	26,345	377,615
<i>Net Cash Provided by Operating Activities</i>	\$217,924	\$78,871	\$296,795

See accompanying notes to the basic financial statements

City of East Cleveland, Ohio
Statement of Fiduciary Assets and Liabilities
Agency Funds
December 31, 2009

Assets

Equity Pooled in Cash and Cash Equivalents	\$11,691
Cash and Cash Equivalents in Segregated Accounts	<u>374,729</u>

<i>Total Assets</i>	<u><u>\$386,420</u></u>
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Liabilities

Deposits Held and Due to Others	<u><u>\$386,420</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, 2009

Note 1 – Description of the City and Reporting Entity

The City of East Cleveland is a home rule municipal corporation 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.

Reporting Entity

A reporting entity is comprised of the primary government, component units and other organizations that are included to ensure that the financial statements are not misleading. The primary government of the City consists of all funds, agencies, departments, and offices that are not legally separate from the City. For the City of East Cleveland, this includes the departments that provide the following services: police protection, fire fighting and prevention, street maintenance and repairs, public improvements, community development (planning and zoning), culture and recreation, refuse collection, sewer and general administrative and legislative services. The City of Cleveland provides water to the residents of the City. The City of Cleveland bills the customers directly. The City contracts with the Northeast Ohio Regional Sewer District to provide sewage treatment for the City; however, the City still owns and maintains the sewer lines.

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

Note 2 – Summary of Significant Accounting Policies

The financial statements of the City of East Cleveland have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to local governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial principles. The City also applies Financial Accounting Standards Board (FASB) Statements and Interpretations issued on or before November 30, 1989, to its governmental and business-type activities and to its enterprise funds unless those pronouncements conflict with or contradict GASB pronouncements. The City has elected not to apply FASB statements and interpretations issued after November 30, 1989, to its business-type activities and its enterprise funds. The more significant of the City's accounting policies are described below.

City of East Cleveland, Ohio
Notes to the Basic Financial Statements
For The Year Ended December 31, 2009

Basis of Presentation

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

Government-wide Financial Statements The statement of net assets and the statement of activities display information about the City as a whole. These statements include the financial activities of the primary government, except for fiduciary funds. The statements distinguish between those activities of the City that are governmental and those that are considered business-type activities.

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

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. There are three categories of funds: governmental, proprietary and fiduciary.

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

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

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

City of East Cleveland, Ohio
Notes to the Basic Financial Statements
For The Year Ended December 31, 2009

Proprietary Funds Proprietary fund reporting focuses on the determination of operating income, changes in net assets, financial position and cash flows. Proprietary funds are classified as either enterprise or internal service. The City has no internal service funds.

Enterprise Funds - Enterprise funds may be used to account for any activity for which a fee is charged to external users for goods or services. The following are the City's major 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 residential 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 therefore not available to support the City's own programs. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. The City's only fiduciary funds are agency funds which accounts for contractor bid specification deposits and for the escrow of rent with the municipal court.

Measurement Focus

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

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

Like the government-wide statements, all proprietary funds are accounted for on a flow of economic resources measurement focus. All assets and all liabilities associated with the operation of these funds are included on the statement of fund net assets. The statement of revenues, expenses and changes in fund net assets presents increases (i.e., revenues) and decreases (i.e., expenses) in total net assets. The statement of cash flows provides information about how the City finances and meets the cash flow needs of its proprietary activities.

Basis of Accounting

Basis of accounting determines when transactions are recorded in the financial records and reported on the financial statements. Government-wide financial statements are prepared using the accrual basis of accounting; proprietary and fiduciary funds also use the accrual basis of accounting. Governmental funds

City of East Cleveland, Ohio
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use the modified accrual basis of accounting. Differences in the accrual and modified accrual basis of accounting arise in the recognition of revenue, the recording of deferred revenue and in the presentation of expenses versus expenditures.

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

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

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

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

Property taxes for which there is an enforceable legal claim as of December 31, 2009, but which were levied to finance year 2010 operations, have been recorded as deferred revenue. Grants and entitlements received before the eligibility requirements are met are also recorded as deferred revenue.

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

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

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

Cash and Cash Equivalents

To improve cash management, cash received by the City is pooled. Individual fund integrity is maintained through City records. Interest in the pool is presented as "equity in pooled cash and cash equivalents".

City of East Cleveland, Ohio
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The City has segregated bank accounts for monies held separate from the City's central bank account. These depository accounts are presented as "Cash and Cash Equivalents in Segregated Accounts" since they are not required to be deposited into the City treasury.

During 2009, investments were limited to STAROhio, mutual funds and repurchase agreements.

Except for nonparticipating investment contracts, investments are reported at fair value which is based on quoted market prices or, in the case of mutual funds, current share price. Nonparticipating investment contracts such as repurchase agreements are reported at cost.

STAROhio is an investment pool managed by the State Treasurer's Office which allows governments within the State to pool their funds for investment purposes. STAROhio is not registered with the SEC as an investment company, but does operate in a manner consistent with Rule 2a7 of the Investment Company Act of 1940. Investments in STAROhio are valued at STAROhio's share price which is the price the investment could be sold for on December 31, 2009.

Investment procedures are restricted by the provisions of the Ohio Revised Code. Interest revenue credited to the general fund during 2009 amount to \$2,304, which includes \$2,060 assigned from other City funds.

Investments of the cash management pool and investments with an original maturity of three months or less at the time they are purchased by the City are presented on the financial statements as cash equivalents.

Prepaid Items

Payments made to vendors for services that will benefit periods beyond December 31, 2009, are recorded as prepaid items using the consumption method by recording a current asset for the prepaid amount and reflecting the expenditure/expense in the year in which the services are consumed.

Inventory

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

Capital Assets

General capital assets are capital assets which are associated with and generally arise from governmental activities. They generally result from expenditures in the governmental funds. General capital assets are reported in the governmental activities column of the government-wide statement of net assets but are not reported in the fund financial statements. Capital assets utilized by the enterprise funds are reported both in the business-type activities column of the government-wide statement of net assets and in the respective funds.

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

All capital assets are depreciated except for land and construction in progress. Improvements are depreciated over the remaining useful lives of the related capital assets. Useful lives for infrastructure were estimated

City of East Cleveland, Ohio
Notes to the Basic Financial Statements
For The Year Ended December 31, 2009

based on the City's historical records of necessary improvements and replacements, and new construction. Depreciation is computed using the straight-line method over the following useful lives:

<u>Description</u>	<u>Estimated Lives</u>
Buildings and Improvements	15 - 45 years
Equipment	3 - 10 years
Vehicles	5 - 10 years
Infrastructure	15 - 50 years

The City's infrastructure consists of traffic lights, street lights, light poles, culverts, bridges, roads, storm sewers, and sewer lines and includes infrastructure acquired prior to December 31, 1980.

Interfund Balances

On fund financial statements, receivables and payables resulting from short-term interfund loans are classified as "interfund receivables/payables." These amounts are eliminated in the governmental and business-type activities columns of the statement of net assets, except for any net residual amounts due between governmental and business-type activities, which are presented as internal balances.

Compensated Absences

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

Sick leave benefits are accrued as a liability using the termination method. An accrual for earned sick leave is made to the extent that it is probable that benefits will result in termination payments. The liability is an estimate on the City's past experience of making termination payments. The amount is based on the sick leave accumulated and employee's wage rates at December 31, taking into consideration any limits specified in the City's termination policy.

Accrued Liabilities and Long-Term Obligations

All payables, accrued liabilities and long-term obligations are reported in the government-wide financial statements and all payables, accrued liabilities and long-term obligations payable from proprietary funds are reported on the proprietary fund financial statements.

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

Fund Balance Reserves

The City reserves those portions of fund balance which are legally segregated for a specific future use or which do not represent expendable resources and therefore are not available for appropriation or expenditure. Fund balance reserves have been established for encumbrances.

City of East Cleveland, Ohio
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For The Year Ended December 31, 2009

Net Assets

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt, consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowing used for the acquisition, construction or improvement of those assets. Net assets are reported as restricted when there are limitations imposed on their use either through constitutional provisions or enabling legislation adopted by the City or through external restrictions imposed by creditors, grantors or laws or regulations of other governments. Net assets restricted for other purposes include resources restricted for parks, recreation programs, senior citizen activities, police and fire pensions, community activities, law enforcement and court programs.

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

Operating Revenues and Expenses

Operating revenues are those revenues that are generated directly from the primary activity of the proprietary funds. For the City, these revenues are charges for services for water and sewer services. Operating expenses are necessary costs incurred to provide the good or service that is the primary activity of the fund. Revenues and expenses which do not meet this definition are reported as non-operating.

Internal Activity

Transfers between governmental and business-type activities on the government-wide statements are reported in the same manner as general revenues. Transfers between governmental activities are eliminated on the government wide financial statements. Internal allocations of overhead expenses from one function to another or within the same function are eliminated on the Statement of Activities. Payments for interfund services provided and used are not eliminated.

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

Extraordinary and Special Items

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

Estimates

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

City of East Cleveland, Ohio
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Budgetary Process

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

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

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

Note 3 - Changes in Accounting Principles and Restatement of Prior Year's Fund Balance and Net Assets

Changes in Accounting Principles

For fiscal year 2009, the City has implemented Governmental Accounting Standard Board (GASB) Statement No. 52, "Land and Other Real Estate Held as Investments by Endowments", Statement No. 53, "Accounting and Financial Reporting for Derivative Instruments", Statement No. 55, "The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments," Statement No. 56, "Codification of Accounting and Financial Reporting Guidance Contained in the AICPA Statements on Auditing Standards", Statement No. 57, "OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans", and Statement No. 58, "Accounting and Financial Reporting for Chapter 9 Bankruptcies".

GASB Statement No. 52 establishes consistent standards for the reporting of land and other real estate held as investments by essentially similar entities. It requires endowments to report their land and other real estate investments at fair value. Governments are also required to report the changes in fair value as investment income and to disclose the methods and significant assumptions employed to determine fair value. The implementation of this statement did not result in any change in the City's financial statements.

GASB Statement No. 53 addresses the recognition, measurement, and disclosure of information regarding derivative instruments entered into by state and local governments. It requires governments to measure derivative instruments, with the exception of synthetic guaranteed investment contracts that are fully benefit-responsive, at fair value in their economic resources measurement focus financial statements. The implementation of this statement did not result in any change in the City's financial statements.

GASB Statement No. 55 incorporates the hierarchy of generally accepted accounting principles (GAAP) for state and local governments into the GASB authoritative literature. The GAAP hierarchy consists of the sources of accounting principles used in the preparation of financial statements of state and local governmental entities that are presented in conformity with GAAP, and the framework for selecting those principles. The implementation of this statement did not result in any change in the City's financial statements.

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GASB Statement No. 56 incorporates accounting and financial reporting guidance previously only contained in the American Institute of Certified Public Accountants' and auditing literature into the GASB's accounting and financial reporting literature for state and local governments. The statement's guidance addresses related party transactions, going concern considerations, and subsequent events from the AICPA literature. The implementation of this statement did not result in any change in the City's financial statements.

GASB Statement No. 57 addresses issues related to the use of the alternative measurement method and the frequency and timing of measurements by employers that participate in agent multiple-employer other postemployment benefit (OPEB) plans (that is, agent employers). The requirements in this Statement will allow more agent employers to use the alternative measurement method to produce actuarially based information for purposes of financial reporting and clarify that OPEB measures reported by agent multiple-employer OPEB plans and their participating employers should be determined at the same minimum frequency and as of a common date to improve the consistency of reporting with regard to funded status and funding progress information. The implementation of this statement did not result in any change in the City's financial statements.

GASB Statement No. 58 provides accounting and financial reporting guidance for governments that have petitioned for protection from creditors by filing for bankruptcy under Chapter 9 of the United States Bankruptcy Code. The requirements in this Statement will provide more consistent recognition, measurement, display, and disclosure guidance for governments that file for Chapter 9 bankruptcy. The implementation of this statement did not result in any change in the City's financial statements.

Restatements

During 2009, it was determined that matured OPWC loan payable and the long-term liability portion of OPWC loans was overstated by \$10,594 and \$90,055, respectively. The matured OPWC loan payable restatement increased fund balance at December 31, 2008 from \$2,581,818 to \$2,592,412. As a result of the change in matured OPWC loans payable and long-term OPWC loan payable, net assets for governmental activities increased \$100,649 from \$19,918,047 to \$20,018,696. It was also determined that capital assets of \$102,014 related to Belmore waterline project needed to be reclassified from the sewer fund to the water fund. The OPWC loan liability was understated in the water fund by \$102,014.

Note 4 – Compliance and Accountability

Compliance

The City had negative cash 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:

Fund	Amount
Governmental Funds	
Older Americans	\$519,362
Domestic Violence	45,129
Victims of Crimes Act	16,917
Community Cops	5,333
Enterprise Funds	
Sewer	558,618

City of East Cleveland, Ohio
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The following funds had total original appropriations in excess of estimated resources plus carryover balances, contrary to Section 5705.39, Revised Code.

Fund	Original Estimated Revenues Plus Beginning Balance	Original Appropriations Plus Carryover Encumbrances	Excess
Governmental Funds			
General Fund	\$18,862,743	\$20,385,482	\$1,522,739
<i>Special Revenue Funds:</i>			
Older Americans	(99,429)	248,968	348,397
Community Development	922,860	1,591,098	668,238
Home Program	147,168	246,858	99,690
Domestic Violence	(19,450)	38,000	57,450
Victims of Crimes Act	(9,503)	66,883	76,386
Community Cops	(5,333)	0	5,333
Home 99	579,553	2,315,686	1,736,133

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

Fund	Final Estimated Revenues Plus Carryover Balance	Final Appropriations	Excess
Governmental Funds			
General Fund	\$18,634,709	\$20,385,482	\$1,750,773
<i>Special Revenue Funds:</i>			
Older Americans	(99,429)	248,968	348,397
Community Development	922,860	1,591,098	668,238
Home Program	147,168	246,858	99,690
Domestic Violence	(19,450)	38,000	57,450
Victims of Crimes Act	(9,503)	66,883	76,386
Community Cops	(5,333)	0	5,333
Home 99	579,533	2,315,686	1,736,153

Contrary to Section 5705.36(A)(2), Ohio Revised Code, the following funds had appropriations in excess of actual receipts plus unencumbered cash:

Fund	Actual Receipts and Unencumbered Cash	Final Appropriations	Variance
Governmental Funds			
General Fund	\$17,958,961	\$20,385,482	(\$2,426,521)
<i>Special Revenue Funds:</i>			
Older Americans	(400,904)	248,968	(649,872)
Community Development	674,667	1,591,098	(916,431)
Home 99	(223,248)	2,315,686	(2,538,934)
Home Program	(35,580)	246,858	(282,438)
Enterprise Funds			
Water	157,602	864,414	(706,812)
Sewer	(228,802)	573,680	(802,482)

City of East Cleveland, Ohio
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Contrary to Section 5705.41 (B), Ohio Revised Code, the following funds and departments within the general fund had expenditures plus encumbrances in excess of appropriations:

Fund/Function	Appropriations	Expenditures Plus Encumbrances	Excess
General Fund			
General Government			
Mayor			
Personal Services	\$166,642	\$179,275	\$12,633
Capital Outlay	2,083	4,915	2,832
Finance			
Personal Services	334,576	349,915	15,339
Materials and Supplies	7,775	9,439	1,664
Other	1,662	6,274	4,612
Capital Outlay	381	41,162	40,781
Law Director			
Other	0	3,150	3,150
Capital Outlay	0	730	730
Civil Service			
Personal Services	10,067	21,458	11,391
Tax Department			
Materials and Supplies	1,955	6,386	4,431
Other	0	988	988
Capital Outlay	0	550	550
Central Services			
Other	0	61,781	61,781
Land and Buildings			
Personal Services	0	8,864	8,864
EDP - Vital Statistics			
Other	785	6,110	5,325
Purchasing			
Personal Services	60,675	63,467	2,792
Security of Persons and Property			
Police Department			
Personal Services	4,502,084	4,695,225	193,141
Materials and Supplies	97,091	106,745	9,654
Contractual Services	234,805	365,029	130,224
Capital Outlay	5,500	17,576	12,076
Community Development			
Housing			
Materials and Supplies	1,588	6,734	5,146
Forestry			
Personal Services	0	1,596	1,596

City of East Cleveland, Ohio
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Fund/Function	Appropriations	Expenditures Plus Encumbrances	Excess
General Fund (continued)			
Leisure Time			
Parks and Recreation			
Materials and Supplies	\$7,935	\$12,323	\$4,388
Other	1,700	1,713	13
Basic Utility Services			
Street Lighting			
Other	0	3,039	3,039
Snow Removal			
Personal Services	0	1,955	1,955
Debt Service			
Principal	123,902	364,200	240,298
Special Revenue Funds			
Street			
Transportation			
Capital Outlay	10,500	43,823	33,323
Older Americans			
Community Development			
Personal Services	209,435	277,056	67,621
Materials and Supplies	8,533	9,210	677
Contractual Services	3,100	39,627	36,527
Other	0	3,830	3,830
FEMA Grant			
Security of Persons and Property			
Contractual Services	28,206	92,022	63,816
Special Projects Courts			
Security of Persons and Property			
Contractual Services	0	3,080	3,080
Domestic Violence			
Security of Persons and Property			
Personal Services	28,000	34,122	6,122
Materials and Supplies	0	98	98
Contractual Services	6,000	14,288	8,288
Other	0	55	55
Computer Legalize Fees			
General Government			
Contractual Services	0	2,147	2,147
Victims of Crimes Act			
Security of Persons and Property			
Contractual Services	14,116	21,390	7,274
Other	934	1,225	291
Courts Community Service			
Security of Persons and Property			
Contractual Services	0	3,705	3,705
Engineering and Building Department			
General Government			
Contractual Services	0	5,078	5,078
Capital Projects Fund			
Street Resurfacing			
Capital Outlay	0	34,664	34,664

City of East Cleveland, Ohio
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Fund/Function	Appropriations	Expenditures Plus Encumbrances	Excess
<i>Capital Projects Funds (continued)</i>			
Permanent Improvement			
Contractual Services	\$153,159	\$195,229	\$42,070
<i>Enterprise Funds</i>			
Water Fund			
Principal Retirement	0	41,869	41,869
Sewer Fund			
Personal Services	256,650	388,190	131,540
Contractual Services	62,907	250,488	187,581
Capital Outlay	138,929	315,123	176,194

Although these budgetary violations were not corrected by fiscal year end, the above final citations are a result of management failing to submit its approved appropriation realignments to the County Auditor. In future periods, management will ensure that appropriations will be closely monitored to prevent future violations.

Accountability

The following funds had deficit fund balances/net assets as of December 31, 2009:

Fund	Amount
General Fund	\$886,202
Special Revenue Funds	
Older Americans	526,909
Domestic Violence	46,064
Victims of Crimes Act	20,128

The general fund concluded 2009 with a deficit fund balance of \$886,202. The City has experienced a financial shortfall which has resulted in deficit spending in the general fund. The City is working on a plan to alleviate the financial shortfall. The City will begin to aggressively collect the almost \$6 million in outstanding speeding tickets. The money will be deposited into the general fund and then can be transferred to the deficit funds.

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

Note 5 - Budgetary Basis of Accounting

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

1. Revenues are recorded when received in cash (budget) as opposed to when susceptible to accrual (GAAP).

City of East Cleveland, Ohio
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2. Expenditures are recorded when paid in cash (budget) as opposed to when the liability is incurred (GAAP).
3. Encumbrances are treated as expenditures (budget) rather than as a reservation of fund balance (GAAP).

The adjustments necessary to convert the results of operations for the year on the GAAP basis to the budget basis for the general fund are as follows:

Net Change in Fund Balance

	General
GAAP Basis	(\$151,782)
Net Adjustment for Revenue Accruals	(42,937)
Net Adjustment for Expenditures Accruals	428,529
Principal Retirement	(340,325)
Encumbrances	(144,844)
Budget Basis	(\$251,359)

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 the 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;
3. Written repurchase agreements in the securities listed above;

City of East Cleveland, Ohio
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4. Bonds and other obligations of the State of Ohio or Ohio local governments;
5. Time certificates of deposit or savings or deposit accounts including, but not limited to, passbook accounts;
6. No-load money market mutual funds consisting exclusively of obligations described in division (1) or (2) and repurchase agreements secured by such obligations;
7. The State Treasurer's investment pool (STAROhio);
8. Commercial paper and banker's acceptances if training requirements have been met.

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

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

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

Deposits

Custodial Credit Risk Custodial credit risk for deposits is the risk that in the event of bank failure, the City will not be able to recover deposits or collateral securities that are in the possession of an outside party. At December 31, 2009, the carrying amount of all City deposits was \$499,221. At year end none of the City's bank balance of was uninsured and uncollateralized. Although the securities were held by the pledging financial institutions' trust department and all statutory requirements for the deposit of money had been followed, noncompliance with Federal requirements could potentially subject the City to a successful claim by the FDIC.

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

Investments

As of December 31, 2009, the City had the following investments:

City of East Cleveland, Ohio
Notes to the Basic Financial Statements
For The Year Ended December 31, 2009

Investment Type	Fair Value	Average Maturity (days)
Victory Federal Money Market Mutual Fund	\$3,238,163	30
STAROhio	573,599	61.2
Repurchase Agreement:		
Victory Federal Money Market	7,593	daily
Total Investments	\$3,819,355	

Interest Rate Risk. The City has no investment policy that addresses interest rate risk. State statute requires that an investment mature within five years from the date of purchase, unless matched to a specific obligation or debt of the City, and that an investment must be purchased with the expectation that it will be held to maturity. Repurchase agreements are limited to 30 days and the market value of the securities must exceed the principal value of the agreement by at least two percent and be marked to market daily.

Credit Risk. The Victory Federal Money Market Mutual Fund carries a rating of AAA by Standard and Poor's. STAROhio carries a rating of AAAM by Standard and Poor's. Ohio law requires that STAROhio maintain the highest rating provided by at least one nationally recognized standard rating service. The City has no investment policy that addresses credit risk.

Note 7 - Receivables

Receivables at December 31, 2009, consisted primarily of municipal income taxes, property taxes, intergovernmental receivables arising from entitlements and shared revenues, and accounts (billings for user charged services, including unbilled utility services). All receivables are expected to be collected within one year except property taxes, income taxes and accounts receivable which have significant delinquencies and are expected to be collected over several years.

The allowance for doubtful accounts was \$1,083,876 and the collectible aged accounts receivable were \$722,251. Enterprise funds accounts receivable consist of the following:

	Water	Sewer	Total
Current Accounts Receivable (less than 30 days past due)	\$0	\$0	\$0
Aged Accounts 12/31/09 (more than 31 days past due)	885,002	921,125	1,806,127
Total Enterprise Funds Accounts Receivable	885,002	921,125	1,806,127
Less Uncollectables	(531,099)	(552,777)	(1,083,876)
Enterprise Funds Accounts Receivable	\$353,903	\$368,348	\$722,251

Property Taxes

Property taxes include amounts levied against all real, public utility and tangible personal property located in the County. Property tax revenue received during 2009 for real and public utility property taxes represents collections of the 2008 taxes. Property tax payments received during 2009 for tangible personal property (other than public utility property) are for 2009 taxes.

City of East Cleveland, Ohio
Notes to the Basic Financial Statements
For The Year Ended December 31, 2009

2009 real property taxes are levied after October 1, 2009 on the assessed value as of January 1, 2009, the lien date. Assessed values are established by State law at 35 percent of appraised market value. 2009 real property taxes are collected in and intended to finance 2010.

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

Public utility tangible personal property currently is assessed at varying percentages of true value; public utility real property is assessed at 35 percent of true value. 2009 public utility property taxes became a lien December 31, 2008, are levied after October 1, 2009, and are collected in 2010 with real property taxes.

Tangible personal property tax revenue received during 2009 (other than public utility property tax) represents the collection of 2009 taxes levied against local and inter-exchange telephone companies. Tangible personal property tax on business inventory, manufacturing machinery and equipment, furniture and fixtures is no longer levied and collected. Tangible personal property taxes received from telephone companies in 2009 were levied after October 1, 2008, on the value as of December 31, 2008. Payments by multi-county taxpayers are due September 20. Single county taxpayers may pay annually or semi-annually. If paid annually, payment is due April 30; if paid semi-annually, the first payment is due April 30, with the remainder payable by September 20.

The full tax rate for all County operations for the year ended December 31, 2009, was \$12.70 per \$1,000 of assessed value. The assessed values of real and tangible personal property upon which 2009 property tax receipts were based are as follows:

Residential/Agriculture	\$142,331,470
Commercial/Industrial/Public Utility	67,452,590
Tangible Personal Property	4,277,980
Public Utility Property	<u>8,110,010</u>
Total Assessed Values	<u><u>\$222,172,050</u></u>

The County Treasurer collects property taxes on behalf of all taxing districts in the County, including the City of East Cleveland. The County Auditor periodically remits to the City its portion of the taxes collected. Property taxes receivable represents real and tangible personal property taxes and public utility taxes and outstanding delinquencies which are measurable as of December 31, 2009 and for which there is an enforceable legal claim. In the general fund, the police and fire pension special revenue funds, and the permanent improvement capital projects fund, the entire receivable has been offset by deferred revenue since the current taxes were not levied to finance 2009 operations and the collections of delinquent taxes during the available period is not subject to reasonable estimation. On a full accrual basis, collectible delinquent property taxes have been recorded as a receivable and revenue while the remainder of the receivable is deferred.

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 on incomes of residents earned outside of the City. Employers within the City are required to withhold income tax on employee compensation and remit the tax to the Regional Income Tax Agency (RITA) at least quarterly. Corporations and other individual taxpayers are required to file a declaration annually and quarterly estimated tax payments are recommended. Income tax proceeds are received by the general fund.

City of East Cleveland, Ohio
Notes to the Basic Financial Statements
For The Year Ended December 31, 2009

Intergovernmental Receivables

A summary of intergovernmental receivables follows:

Intergovernmental Receivables	Amount
Governmental Activities	
Local Government	\$1,524,295
CDBG/Home Program Grants	405,997
Homestead and Rollback	167,247
Gasoline Tax	105,445
Gasoline Cents per Gallon	50,195
VOCA Grant	47,584
City of Cleveland	20,428
Inheritance	36,118
Permissive Tax	31,984
Auto License Tax	30,318
CAT Tax	26,337
Public Utility Reimbursement	23,560
Older Americans Grants	8,455
Total Governmental Activities	2,477,963
Business - Type Activities	
Sewer	22,891
<i>Grand Total</i>	\$2,500,854

Note 8 – Capital Leases

The City has capital leases for a backhoe, three Toshiba copiers, two leases with Metrolease for copiers, a lease for 10 police vehicles and three new leases for copiers. The City’s lease obligations meet the criteria of a capital lease as defined by Financial Accounting Standards Board Statement No. 13, “Accounting for Leases,” which defines a capital lease generally as one which transfers benefits and risks of ownership to the lessee. Capital lease payments are reflected as debt service expenditures in various funds on the basic financial statements. The governmental equipment has been capitalized in the amount of \$445,177, the present value of the minimum lease payments at the inception of the leases.

Governmental Activities:	
Asset	
Vehicles	\$321,195
Equipment	123,982
<i>Total Capital Assets, Being Depreciated:</i>	445,177
Accumulated Depreciation	
Vehicles	96,359
Equipment	85,644
<i>Total Accumulated Depreciation</i>	182,003
<i>Governmental Activities Capital Assets, Net</i>	\$263,174

The following is a schedule of the future minimum lease payments required under the capital leases and the present value of the minimum lease payments as of December 31, 2009.

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Year	Amount
2010	\$95,403
2011	93,098
2012	88,525
2013	60,256
2014	2,559
Total minimum lease payments	339,841
Less: Amount representing interest	(39,732)
Present Value of minimum lease payments	\$300,109

Note 9 - Capital Assets

Capital asset activity for the year ended December 31, 2009, was as follows:

	Balance 12/31/2008	Additions	Deductions	Balance 12/31/2009
Governmental Activities				
<i>Capital Assets not being Depreciated:</i>				
Land	\$920,260	\$0	\$0	\$920,260
Construction in Progress	552,647	407,338	0	959,985
<i>Total Capital Assets not being Depreciated</i>	1,472,907	407,338	0	1,880,245
<i>Capital Assets being Depreciated:</i>				
Buildings and Improvements	4,400,375	0	0	4,400,375
Equipment	2,962,122	104,389	0	3,066,511
Vehicles	4,150,460	42,300	0	4,192,760
Infrastructure	21,097,517	0	0	21,097,517
<i>Total Capital Assets being Depreciated</i>	32,610,474	146,689	0	32,757,163
<i>Less Accumulated Depreciation:</i>				
Buildings and Improvements	(3,175,816)	(55,970)	0	(3,231,786)
Equipment	(2,665,549)	(128,454)	0	(2,794,003)
Vehicles	(3,258,947)	(190,999)	0	(3,449,946)
Infrastructure	(5,734,138)	(491,807)	0	(6,225,945)
<i>Total Accumulated Depreciation</i>	(14,834,450)	(867,230) *	0	(15,701,680)
Total Capital Assets being Depreciated, Net	17,776,024	(720,541)	0	17,055,483
Governmental Activities Capital Assets, Net	\$19,248,931	(\$313,203)	\$0	\$18,935,728

City of East Cleveland, Ohio
Notes to the Basic Financial Statements
For The Year Ended December 31, 2009

	Balance 12/31/2008	Additions	Deductions	Balance 12/31/2009
Business-Type Activities:				
<i>Capital Assets not being Depreciated:</i>				
Construction in Progress	\$0	\$315,123	\$0	\$315,123
<i>Capital Assets being Depreciated:</i>				
Equipment	99,110	0	0	99,110
Vehicles	203,994	0	0	203,994
Infrastructure	208,450	0	0	208,450
Total Capital Assets being Depreciated	511,554	0	0	511,554
<i>Less Accumulated Depreciation:</i>				
Equipment	(80,878)	(3,192)	0	(84,070)
Vehicles	(160,137)	(3,850)	0	(163,987)
Infrastructure	(60,978)	(4,169)	0	(65,147)
Total Accumulated Depreciation	(301,993)	(11,211)	0	(313,204)
Total Capital Assets being Depreciated, Net	209,561	(11,211)	0	198,350
Business Type Activities Capital Assets, Net	\$209,561	\$303,912	\$0	\$513,473

* Depreciation expense was charged to governmental functions as follows:

General Government	\$412,359
Security of Persons and Property	123,309
Leisure Time Activities	13,677
Community Environment	11,519
Transportation	306,366
Total Depreciation Expense	\$867,230

Note 10 – Employee Benefits

Compensated Absences

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

Health Care Benefits

Kaiser Permanente provides medical/surgical coverage to eligible City employees. Employees are able to choose from two options with differing deductibles, co-pays and service options. The cost for option one HMO is \$398.90 per month for individual coverage and \$997.68 per month for family coverage. Option two is \$434.09 per month for individual coverage and \$1,085.71 per month for family coverage. Medical Mutual provides dental and vision coverage. The cost for dental coverage is \$21.10 for individual coverage and \$59.27 for family coverage. The cost for vision is \$6.56 for individual coverage and \$16.39 for family coverage.

City of East Cleveland, Ohio
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Life insurance is offered to employees through United States Life Insurance Company. Police receive up to \$20,000 coverage for \$.40/\$1,000 coverage per month; firemen receive up to \$30,000 coverage for \$.40 per/\$1,000 coverage per month. The fire chief and police chief receive up to \$50,000 coverage for \$.40 per/\$1,000 coverage 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 11 – Local Government Fund Notes

On December 28, 2005, the City, in accordance with Ohio Revised Code Section 118.17(C), issued \$2,913,600 in local government fund notes at 4.19 percent interest to eliminate deficit funds. The note proceeds were transferred to the Older American, Community Development Block Grant, and Special Purpose Grant special revenue funds and to the Sewer fund. The notes will be repaid with local government monies. A schedule of changes during 2009 follows:

	Outstanding 12/31/2008	Additions	(Reductions)	Outstanding 12/31/2009
Governmental Activities				
Local Government Fund Notes	\$1,868,485	\$0	(\$364,200)	\$1,504,285

Principal and interest requirements to retire the notes outstanding at December 31, 2009, are as follows:

	Governmental Activities	
	Local Government	
	Notes	
	Principal	Interest
2010	\$364,200	\$80,115
2011	364,200	64,855
2012	364,200	49,595
2013	411,685	19,074
Total	\$1,504,285	\$213,639

Note 12 - Long-Term Obligations

Original issue amounts and year of maturity of the City's governmental loans were as follows:

Debt Issue	Original Issue	Year of Maturity
Governmental Activities		
OPWC Loans:		
2003 Euclid Avenue Rehabilitation	\$2,951,444	2028
2006 Windermere/Idlewood/Knowles Road	977,988	2028
Business-Type Activities		
OPWC Loans:		
1994 Water Main Project Phase I	393,740	2014
1997 Water Main Project Phase II	406,900	2017
2000 Brunswick Road Water Main Improvement Project	23,164	2019
2000 Forest Hills Water Main Project	25,442	2020
2008 Belmore Waterline Project	102,014	2030

City of East Cleveland, Ohio
Notes to the Basic Financial Statements
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All of the loans were obtained through the Ohio Public Works Commission (OPWC) and are interest free.

A schedule of changes in long-term obligations of the City during 2009 follows:

	Restated Outstanding 12/31/2008	Additions	(Reductions)	Outstanding 12/31/2009	Due in One Year
Governmental Activities					
OPWC Loans:					
Euclid Avenue Rehabilitation	\$2,803,872	\$0	(\$147,572)	\$2,656,300	\$147,572
Windemere/ Idlewood/ Knowles Road	977,988	0	(48,899)	929,089	48,899
Total OPWC Loans	3,781,860	0	(196,471)	3,585,389	196,471
Capital Leases	359,390	29,094	(88,375)	300,109	78,228
Police and Fire Pension Liability	1,476,839	0	(31,013)	1,445,826	32,349
Compensated Absences	1,647,092	108,496	(90,137)	1,665,451	310,130
Total Governmental Activities	<u>\$7,265,181</u>	<u>\$137,590</u>	<u>(\$405,996)</u>	<u>\$6,996,775</u>	<u>\$617,178</u>
Business-Type Activities					
OPWC Loans:					
Water Main Project Phase I	\$108,280	\$0	(\$19,687)	\$88,593	\$19,687
Water Main Project Phase II	167,887	0	(19,752)	148,135	19,752
Belmore Waterline Project	102,014	0	0	102,014	0
Brunswick Road Water Main Improvement Project	12,742	0	(1,158)	11,584	1,158
Forest Hills Water Main Project	14,630	0	(1,272)	13,358	1,272
Total OPWC Loans	405,553	0	(41,869)	363,684	41,869
Compensated Absences	40,277	12,889	(12,002)	41,164	11,903
Total Business-Type Activities	<u>\$445,830</u>	<u>\$12,889</u>	<u>(\$53,871)</u>	<u>\$404,848</u>	<u>\$53,772</u>

Capital leases will be paid with various revenues from the general fund, the community development block grant special revenue fund and the permanent improvement capital projects fund. The police and fire pension liability will be paid from the police accrued liability and fire accrued liability funds. The decrease in police and fire pension liability includes \$15,670 that matured during 2009, but was paid in 2010. Compensated absences will be paid from the general, street, older Americans, community development block grant, victims of crimes act, water and sewer funds.

The Euclid Avenue rehabilitation and the Windemere/Idlewood/Knowles Road OPWC loans will be paid from the permanent improvement fund. Enterprise OPWC loans will be paid from the water fund from user charges.

During 2009, the City repaid the OPWC loans for water lines in the water fund. The debt is payable through 2020 and the total principal remaining to be paid on the debt is \$261,670. Principal paid for the current year was \$41,869, total net revenues were \$235,575 and total revenues were \$356,419.

The City has pledged future revenues, net of operating expenses, to repay OPWC loans in the water fund. All debt is payable solely from net revenues and are payable through 2020. Annual principal payments on the OPWC loans are expected to require 18 percent of net revenues and 12 percent of total revenues. The total principal remaining to be paid on the OPWC loans is \$261,670. Principal paid for the current year was \$41,869, total net revenues were \$235,575 and total revenues were \$356,419.

The City's overall legal debt margin was \$19,742,676 at December 31, 2009.

City of East Cleveland, Ohio
Notes to the Basic Financial Statements
For The Year Ended December 31, 2009

Principal and interest requirements to retire long-term obligations outstanding at December 31, 2009, are as follows:

	Governmental Activities		Business-Type Activities	
	Police and Fire Liability		OPWC Loans	OPWC Loans
	Principal	Interest	Principal	Principal
	Principal	Interest	Principal	Principal
2010	\$32,349	\$61,249	\$196,471	\$41,869
2011	33,690	59,906	196,471	46,970
2012	35,193	58,404	196,471	46,970
2013	36,648	56,949	196,471	46,970
2014	38,289	55,308	196,471	37,129
2015-2019	217,619	250,362	982,355	87,031
2020-2024	268,678	199,304	982,355	26,142
2025-2029	331,732	136,250	638,324	25,503
2030-2034	409,575	58,407	0	5,100
2035	42,053	890	0	0
Total	<u>\$1,445,826</u>	<u>\$937,029</u>	<u>\$3,585,389</u>	<u>\$363,684</u>

Note 13 - Defined Benefit Pension Plans

Ohio Public Employees Retirement System

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

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

Funding Policy – The Ohio Revised Code provides statutory authority for member and employer contributions. For the year ended December 31, 2009, members in state and local classifications contributed 10.0 percent of covered payroll while public safety and law enforcement members contributed 10.1 percent.

The City’s 2009 contribution rate was 14.0 percent. For the period January 1 through March 31, a portion of the City’s contribution equal to 7.0 percent of covered payroll was allocated to fund the post-employment health care plan; for the period April 1 through December 31, 2009 this amount was decreased to 5.5 percent. Employer contribution rates are actuarially determined. State statute sets a maximum contribution rate for the City of 14.0 percent.

City of East Cleveland, Ohio
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The City's required contributions for pension obligations to the traditional and combined plans for the years ended December 31, 2009, 2008, and 2007 were \$392,282, \$334,445, and \$276,192, respectively; 97.77 percent has been contributed for 2009 and 100 percent for 2008 and 2007. Contributions to the member-directed plan for 2009 were \$7,015 made by the City and \$5,011 made by the plan members.

Ohio Police and Fire Pension Fund

Plan Description – The City contributes to the Ohio Police and Fire Pension Fund (OP&F), a cost-sharing multiple-employer defined benefit pension plan. OP&F provides retirement and disability 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 OP&F, 140 East Town Street, Columbus, Ohio 43215-5164.

Funding Policy – Plan members are required to contribute 10.0 percent of their annual covered salary, while employers are required to contribute 19.5 percent for police officers and 24.0 percent for firefighters. The City's contributions to OP&F for police and firefighters were \$272,845 and \$399,464 for the year ended December 31, 2009, \$280,451 and \$434,969 for the year ended December 31, 2008 and \$233,520 and \$248,485 for the year ended December 31, 2007. 0 percent for police and 20.65 percent for firefighters has been contributed for 2009. The full amount has been contributed for 2008 and 2007.

In addition to current contributions, the City pays installments on the accrued liability incurred when the State of Ohio established the statewide pension system for police and firefighters in 1967. As of December 31, 2009, the unfunded liability of the City was \$1,445,826 payable in semi-annual payments through year 2035. This is an accounting liability of the City which will not vary.

Social Security

Effective July 1, 1991, all employees not otherwise covered by the Ohio Public Employees Retirement System or Ohio Police and Fire Pension Fund are covered by Social Security. As of December 31, 2009, one member of Council is covered by Social Security. The City's liability is 6.2 percent of wages paid.

Note 14 – Postemployment Benefits

Ohio Public Employees Retirement System

Plan Description – Ohio Public Employees Retirement System (OPERS) maintains a cost-sharing multiple-employer defined benefit post-employment health care plan for qualifying members of both the Traditional Pension and the Combined Plans. Members of the Member-Directed Plan do not qualify for ancillary benefits, including post-employment health care coverage. The plan includes a medical plan, prescription drug program and Medicare Part B premium reimbursement.

In order to qualify for post-employment health care coverage, age and service retirees under the Traditional Pension and Combined Plans must have 10 or more years of qualifying Ohio service credit. Health care coverage for disability benefit recipients and qualified survivor benefit recipients is available. The Ohio Revised Code permits, but does not require, OPERS to provide health care benefits to its eligible members and beneficiaries. Authority to establish and amend benefits is provided in Chapter 145 of the Ohio Revised Code.

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

City of East Cleveland, Ohio
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Funding Policy – The post-employment health care plan was established under, and is administrated in accordance with, Internal Revenue Code 401(h). State Statute requires that public employers fund post-employment health care through contributions to OPERS. A portion of each employer’s contribution to OPERS is set aside for the funding of post-retirement health care.

Employer contribution rates are expressed as a percentage of the covered payroll of active members. In 2009, state and local employers contributed at a rate of 14.0 percent of covered payroll, and public safety and law enforcement employers contributed at 17.63 percent. Each year, the OPERS Retirement Board determines the portion of the employer contribution rate that will be set aside for funding of post-employment health care benefits. The amount of employer contributions which were allocated to fund post-employment health care was 7.0 percent from January 1 through March 31, 2009, and 5.5 percent from April 1 through December 31, 2009.

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

The City’s contributions allocated to fund post-employment health care benefits for the years ended December 31, 2009, 2008, and 2007 were \$283,650, \$334,445, and \$211,102 respectively; 97.77 percent has been contributed for 2009 and 100 percent for 2008 and 2007.

The Health Care Preservation Plan (HCPP) adopted by the OPERS Retirement Board on September 9, 2004, was effective January 1, 2007. Member and employer contribution rates increased on January 1 of each year from 2006 to 2008. Rates for law and public safety employers increased over a six year period beginning on January 1, 2006, with a final rate increase on January 1, 2011. These rate increases allowed additional funds to be allocated to the health care plan.

Ohio Police and Fire Pension Fund

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

OP&F provides access to post-retirement health care coverage for any person who receives or is eligible to receive a monthly service, disability, or survivor benefit check or is a spouse or eligible dependent child of such person. The health care coverage provided by OP&F meets the definition of an Other Post-Employment Benefit (OPEB) as described in GASB Statement No. 45.

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

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

Funding Policy – The Ohio Revised Code provides for contribution requirements of the participating employers and of plan members to the OP&F defined benefit pension plan. Participating employers are required to contribute to the pension plan at rates expressed as percentages of the payroll of active pension

City of East Cleveland, Ohio
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plan members, currently, 19.5 percent and 24.0 percent of covered payroll for police and fire employers, respectively. The Ohio Revised Code states that the employer contribution may not exceed 19.5 percent of covered payroll for police employer units and 24.0 percent of covered payroll for fire employer units. Active members do not make contributions to the OPEB Plan.

OP&F maintains funds for health care in two separate accounts. One for health care benefits under an IRS Code Section 115 trust and one for Medicare Part B reimbursements administrated as an Internal Revenue Code 401(h) account, both of which are within the defined benefit pension plan, under the authority granted by the Ohio Revised Code to the OP&F Board of Trustees.

The Board of Trustees is authorized to allocate a portion of the total employer contributions made into the pension plan to the Section 115 trust and the Section 401(h) account as the employer contribution for retiree health care benefits. For the year ended December 31, 2009, the employer contribution allocated to the health care plan was 6.75 percent of covered payroll. The amount of employer contributions allocated to the health care plan each year is subject to the Trustees' primary responsibility to ensure that pension benefits are adequately funded and is limited by the provisions of Sections 115 and 401(h).

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

The City's contributions to OP&F which were allocated to fund post-employment health care benefits for police and firefighters were \$144,447 and \$156,312 for the year ended December 31, 2009, \$148,474 and \$170,205 for the year ended December 31, 2008, \$233,520 and \$248,485 for the year ended December 31, 2007. The full amount has been contributed for 2008 and 2007. 0 percent has been contributed for police and 20.65 percent has been contributed for firefighters for 2009.

Note 15 - Contingencies

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, 2009.

Litigation

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

Note 16 – Risk Management

The City of East Cleveland is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; injuries to employees natural disasters. During 2009, the City contracted with Scottsdale Indemnity Company for blanket building and business personal property general liability with \$19,016,598 coverage.

City of East Cleveland, Ohio
Notes to the Basic Financial Statements
For The Year Ended December 31, 2009

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 in the general fund. There were two outstanding claims at December 31, 2009; however, neither was settled by year end, so there is no change in the claims liability amount for 2009.

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

Note 17 – Operating Lease

The City of East Cleveland has entered into two operating leases. The first one is with City Management Group, Limited, for the purpose of leasing 3,300 square feet of a building in the City to house the City Water Department. This is a cancelable lease that is renewed annually. The City pays \$2,150 per month. For 2009, the City paid rental costs of \$24,800. The City must provide the lessor written notice at least 90 days prior to termination of the lease. The second one is with Brandon King/King Management Group (KMG), Limited, for the purpose of leasing 1,500 square feet of a building in the City to house the Domestic Violence Department. This is a cancelable lease that is renewed annually. The City pays \$2,795 per quarter. For 2009, the City paid rental costs of \$11,180. The City must provide the lessor written notice at least 90 days prior to termination of the lease.

Note 18 – Interfund Balances

Interfund balances at December 31, 2009 consisted of the following:

Interfund Payable	<u>Interfund Receivable</u> General Fund
Nonmajor Funds:	
Older Americans	\$519,362
Domestic Violence	45,129
Victims of Crimes Act	16,917
Community Cops	5,333
Total Nonmajor Funds	586,741
Enterprise Fund:	
Sewer	558,618
Grand Total	\$1,145,359

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

City of East Cleveland, Ohio
Notes to the Basic Financial Statements
For The Year Ended December 31, 2009

Note 19 – Financial Distress

As of December 31, 2009, the City has a General fund deficit of (\$886,202).

In subsequent years, the fund deficits have increased and there were significant outstanding obligations. As of December 31, 2009, the City's General Fund has a cash balance of \$1,428,541 and deficits in other funds totaling (\$1,145,359). As of December 31, 2010, the City's General Fund has a cash balance of \$924,393, and deficits in other funds totaling (\$2,091,096).

To alleviate the financial shortfall, the City is in the process of developing a strategy to stabilize its cash shortfall in the general fund.

**CITY OF EAST CLEVELAND
CUYAHOGA COUNTY**

**FEDERAL AWARDS EXPENDITURE SCHEDULE
FOR THE YEAR ENDED DECEMBER 31, 2009**

FEDERAL GRANTOR <i>Pass Through Grantor</i> Program Title	Federal CFDA Number	Expenditures
U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES <i>Passed Through Western Reserve Area on Aging</i>		
Older Americans Title III, Part B-Grants for Supportive Services and Senior Centers	93.044	\$ 22,632
Older Americans Title III, Part C-Nutrition Services	93.045	<u>33,867</u>
Total U.S. Department of Health and Human Services		<u>56,499</u>
U.S. DEPARTMENT OF HOMELAND SECURITY <i>Passed Through Ohio Department of Public Safety:</i>		
Assistance to Firefighters Grant	97.044	<u>67,816</u>
U.S. DEPARTMENT OF JUSTICE <i>Passed Through Office of the Ohio Attorney General</i>		
Victims of Crime Act	16.575	<u>68,606</u>
U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT Direct Programs:		
Community Development Block Grant, Entitlement Program	14.218	698,398
Community Development Block Grant, ARRA Entitlement Grants (CDBG-R)	14.253	<u>198,973</u>
Total CDBG - Entitlement Grants Cluster		<u>897,371</u>
Economic Development Initiative - Special Project	14.251	59,626
Home Investment Partnerships Program	14.239	<u>198,007</u>
Total U.S. Department of Housing and Urban Development		<u>1,155,004</u>
TOTAL FEDERAL AWARDS EXPENDITURES		<u>\$ 1,347,925</u>

The accompanying notes to this schedule are an integral part of this schedule.

**CITY OF EAST CLEVELAND
CUYAHOGA COUNTY
NOTES TO THE FEDERAL AWARDS EXPENDITURES SCHEDULE
FOR THE YEAR ENDED DECEMBER 31, 2009**

NOTE A. BASIS OF PRESENTATIONS

The accompanying Federal Awards Expenditures Schedule (the Schedule) reports the City of East Cleveland (the "City") federal award programs'. The Schedule has been prepared on the cash basis of accounting

NOTE B - SUBRECIPIENTS

The City passes certain federal awards received from U.S. Department of Housing and Urban Development to other governments or not-for-profit agencies (subrecipients). As Note A describes, the City reports expenditures of Federal awards to subrecipients when paid in cash.

As a subrecipient, the City has certain compliance responsibilities, such as monitoring its subrecipients to help assure they use these subawards as authorized by laws, regulations, and the provisions of contracts or grant agreements, and that subrecipients achieve the award's performance goals.



Dave Yost • 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 have audited 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, 2009 and have issued our report thereon dated December 12, 2012, wherein we noted there was insufficient evidence to support the Reserved for Encumbrances and also commented on the City's accumulated unpaid bills which if processed would result in a negative fund balance. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the Comptroller General of the United States' *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City's internal control over financial reporting as a basis for designing our audit procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of opining 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 was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. Therefore, we cannot assure that we have identified all deficiencies, significant deficiencies or material weaknesses. However, as described in the accompanying schedule of findings and questioned costs we identified certain deficiencies in internal control over financial reporting, that we consider material weaknesses.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, when performing their assigned functions, to prevent, or detect and timely correct misstatements. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and timely corrected. We consider findings 2009-01 and 2009-02 described in the accompanying schedule of findings to be material weaknesses.

Compliance and Other Matters

As part of reasonably assuring whether the City's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could directly and materially affect the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and accordingly, we do not express an opinion. The results of our tests disclosed instances of noncompliance or other matters we must report under *Government Auditing Standards* which are described in the accompanying schedule of findings as items 2009-02 to 2009-07.

We also noted certain matters not requiring inclusion in this report that we reported to the City's management in a separate letter dated December 12, 2012.

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

We intend this report solely for the information and use of management, City Council, the audit committee, and federal awarding agencies and pass-through entities and others within the City. We intend it for no one other than these specified parties.



Dave Yost
Auditor of State

December 12, 2012



Dave Yost • Auditor of State

INDEPENDENT ACCOUNTANTS' REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO ITS 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 have audited the compliance of the City of East Cleveland, Cuyahoga County, Ohio, (the City) with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133, Compliance Supplement* that apply to its major federal program for the year ended December 31, 2009. The summary of auditor's results section of the accompanying schedule of findings identifies the City's major federal program. The City's management is responsible for complying with the requirements of laws, regulations, contracts, and grants applicable to each major federal program. Our responsibility is to express an opinion on the City's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits included in the Comptroller General of the United States' *Government Auditing Standards*; 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 reasonably assure whether noncompliance occurred with the compliance requirements referred to above that could directly and materially affect 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. We believe our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the City's compliance with those requirements.

As described in finding 2009-08 in the accompanying schedule of findings, the City did not comply with requirements regarding special tests and provisions applicable to its CDBG – Entitlement Grants Cluster major federal program. Compliance with this requirement is necessary, in our opinion, for the City to comply with requirements applicable to this program.

In our opinion, except for the noncompliance described in the preceding paragraph, the City of East Cleveland complied, in all material respects, with the requirements referred to above applicable to its major federal program for the year ended December 31, 2009.

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 the 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, and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of opining on the effectiveness of internal control over compliance. Accordingly, we have not opined 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 was not designed to identify all deficiencies in internal control over compliance that might be significant deficiencies or material weaknesses and therefore, we cannot assure we have identified all deficiencies, significant deficiencies, or material weaknesses. However, as discussed below, we identified a certain deficiency in internal control over compliance that we consider to be a material weakness.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, when performing their assigned functions, to prevent, or to timely detect and correct, noncompliance with a federal program compliance requirement. A *material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a federal program compliance requirement will not be prevented, or timely detected and corrected. We consider the deficiency in internal control over compliance described in the accompanying schedule of findings as item 2009-08 to be a material weakness.

The City's response to the finding we identified is described in the accompanying schedule of findings. We did not audit the City's response and, accordingly, we express no opinion on it.

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



Dave Yost
Auditor of State

December 12, 2012

CITY OF EAST CLEVELAND
 CUYAHOGA COUNTY
 SCHEDULE OF FINDINGS
 OMB CIRCULAR A - §133 - §505
 FOR THE YEAR ENDED DECEMBER 31, 2009

1. SUMMARY OF AUDITOR'S RESULTS

<i>(d)(1)(i)</i>	Type of Financial Statement Opinion	Qualified
<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	Qualified for CDBG – Entitlement Grants Cluster
<i>(d)(1)(vi)</i>	Are there any reportable findings under § .510?	Yes
<i>(d)(1)(vii)</i>	Major Program(list):	CDBG – Entitlement Grants Cluster: Community Development Block Grants/Entitlement Grants, CFDA # 14.218 Community Development Block Grant ARRA Entitlement Grants (CDBG-R) - (Recovery Act Funded), CFDA # 14.253
<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
 OMB CIRCULAR A - §133 - §505
 FOR THE YEAR ENDED DECEMBER 31, 2009
 (Continued)**

2. FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS
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Finding Number	2009-01
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Material Weakness Finding – Financial Reporting

Sound financial reporting is the responsibility of the Director of Finance and City Council and is essential to ensure the information provided to the readers of the financial statements is complete and accurate. Financial reports and revenue and expense ledgers should be reviewed to ensure they accurately reflect the financial activity of the City.

The Ohio Public Works Commission (OPWC) provides grant funds which are paid directly to vendors for various street projects. These direct payments should be recorded on the City's books as memo receipts and disbursements. During 2009, OPWC paid \$258,240 directly to vendors for the Coit Avenue Sewer project and the receipts and disbursements were not recorded in the City's accounting records. As a result, the revenues and expenses were understated in the Sewer Fund.

Homestead and rollback monies, in the amount of \$218,323, were reclassified from property taxes to intergovernmental revenue in the General Fund.

The accompanying financial statements and the City's accounting records reflect an adjustment recording these amounts.

We recommend the City record OPWC grant funds paid directly to vendors in the accounting records and record homestead and rollback monies as intergovernmental revenue.

Official's Response

The City has developed appropriate monitoring procedures to ensure that the financial statements are complete and accurate.

Finding Number	2009-02
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Material Weakness and Noncompliance Finding – Maintaining and Safeguarding the Accounting Records

Ohio Admin. Code § 117-2-02(A) 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.

**CITY OF EAST CLEVELAND
 CUYAHOGA COUNTY
 SCHEDULE OF FINDINGS
 OMB CIRCULAR A - §133 - §505
 FOR THE YEAR ENDED DECEMBER 31, 2009
 (Continued)**

2. FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS
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Finding Number	2009-02
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(Continued)

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.

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 required 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 encumbrances for 2009 nor did he retain a hard copy of the records. As a result, the detailed accounting records supporting the encumbrances are unavailable for 2009 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

The City will establish formal policies and procedures on the retention and safeguarding of the accounting records, to include establishing effective monitoring controls to ensure compliance.

**CITY OF EAST CLEVELAND
CUYAHOGA COUNTY
SCHEDULE OF FINDINGS
OMB CIRCULAR A - §133 - §505
FOR THE YEAR ENDED DECEMBER 31, 2009
(Continued)**

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

Finding Number	2009-03
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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 original appropriations exceeding estimated resources plus carryover balances:

Fund	Original Estimated Revenues Plus Carryover Balance	Original Appropriations	Excess
Governmental Funds			
General Fund	\$18,862,743	\$20,385,482	\$1,522,739
Special Revenue:			
Older Americans	(99,429)	248,968	348,397
CDBG	922,860	1,591,098	668,238
Home Program	147,168	246,858	99,690
Domestic Violence	(19,450)	38,000	57,450
VOCA	(9,503)	66,883	76,386
Community Cops	(5,333)	0	5,333
Home 99	579,553	2,315,686	1,736,133

The following funds had final appropriations exceeding estimated resources plus carryover balances:

Fund	Final Estimated Revenues Plus Carryover Balance	Final Appropriations	Excess
Governmental Funds			
General Fund	\$18,634,708	\$20,385,482	\$1,750,774
Special Revenue:			
Older Americans	(99,429)	248,968	348,397
CDBG	922,860	1,591,098	668,238
Home Program	147,168	246,858	99,690
Domestic Violence	(19,450)	38,000	57,450
VOCA	(9,503)	66,883	76,386
Community Cops	(5,333)	0	5,333
Home 99	579,553	2,315,686	1,736,133

These weaknesses resulted in the City spending more than their available resources.

We recommend the City establish procedures to ensure total appropriations do not exceed total estimated resources.

Official's Response

The City will spend within available resources and approved appropriations.

CITY OF EAST CLEVELAND
 CUYAHOGA COUNTY
 SCHEDULE OF FINDINGS
 OMB CIRCULAR A - §133 - §505
 FOR THE YEAR ENDED DECEMBER 31, 2009
 (Continued)

2. FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS
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Finding Number	2009-04
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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.

As of December 31, 2009, the following funds had negative cash fund balances:

Fund	Amount
Governmental Funds:	
Older American	(\$519,362)
Domestic Violence	(45,129)
Victims of Crimes Act	(16,917)
Community Cops	(5,333)
Enterprise Funds:	
Sewer	(558,618)

We recommend the City consider advancing monies from the General Fund in order ensure negative cash fund balances are eliminated.

Official's Response

The City will monitor the timing of receipts, and advance monies from the General Fund when available to eliminate negative cash fund balances.

CITY OF EAST CLEVELAND
 CUYAHOGA COUNTY
 SCHEDULE OF FINDINGS
 OMB CIRCULAR A - §133 - §505
 FOR THE YEAR ENDED DECEMBER 31, 2009
 (Continued)

2. FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS
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Finding Number	2009-05
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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.

As of December 31, 2009, the following funds had expenditures plus encumbrances in excess of appropriations:

Fund/Function	Appropriations	Expenditures Plus Encumbrances	Excess
<i>General Fund</i>			
General Government			
Mayor			
Personal Services	\$166,642	\$179,275	\$12,633
Capital Outlay	2,083	4,915	2,832
Finance			
Personal Services	334,576	349,915	15,339
Materials and Supplies	7,775	9,439	1,664
Other	1,662	6,274	4,612
Capital Outlay	381	41,162	40,781
Law Director			
Other	0	3,150	3,150
Capital Outlay	0	730	730
Civil Service			
Personal Services	10,067	21,458	11,391
Tax Department			
Materials and Supplies	1,955	6,386	4,431
Other	0	988	988
Capital Outlay	0	550	550
Central Services			
Other	0	61,781	61,781
Land and Buildings			
Personal Services	0	8,864	8,864
EDP - Vital Statistics			
Other	785	6,110	5,325
Purchasing			
Personal Services	60,675	63,467	2,792

**CITY OF EAST CLEVELAND
CUYAHOGA COUNTY
SCHEDULE OF FINDINGS
OMB CIRCULAR A - §133 - §505
FOR THE YEAR ENDED DECEMBER 31, 2009
(Continued)**

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

Finding Number	2009-05
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(Continued)

Fund/Function	Appropriations	Expenditures Plus Encumbrances	Excess
Security of Persons and Property			
Police Department			
Personal Services	\$4,502,084	\$4,695,225	\$193,141
Materials and Supplies	97,091	106,745	9,654
Contractual Services	234,805	365,029	130,224
Capital Outlay	5,500	17,576	12,076
Community Development			
Housing			
Materials and Supplies	1,588	6,734	5,146
Forestry			
Personal Services	0	1,596	1,596
Leisure Time			
Parks and Recreation			
Materials and Supplies	7,935	12,323	4,388
Other	1,700	1,713	13
Basic Utility Services			
Street Lighting			
Other	0	3,039	3,039
Snow Removal			
Personal Services	0	1,955	1,955
Debt Service			
Principal	123,902	364,200	240,298
<i>Special Revenue Funds</i>			
Street			
Transportation			
Capital Outlay	10,500	43,823	33,323
Older Americans			
Community Development			
Personal Services	209,435	277,056	67,621
Materials and Supplies	8,533	9,210	677
Contractual Services	3,100	39,627	36,527
Other	0	3,830	3,830
FEMA Grant			
Security of Persons and Property			
Contractual Services	28,206	92,022	63,816

**CITY OF EAST CLEVELAND
CUYAHOGA COUNTY
SCHEDULE OF FINDINGS
OMB CIRCULAR A - §133 - §505
FOR THE YEAR ENDED DECEMBER 31, 2009
(Continued)**

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

Finding Number	2009-05		
(Continued)			
<u>Fund/Function</u>	<u>Appropriations</u>	<u>Expenditures Plus Encumbrances</u>	<u>Excess</u>
Special Projects Courts			
Security of Persons and Property			
Contractual Services	\$0	\$3,080	\$3,080
Domestic Violence			
Security of Persons and Property			
Personal Services	28,000	34,122	6,122
Materials and Supplies	0	98	98
Contractual Services	6,000	14,288	8,288
Other	0	55	55
Computer Legalize Fees			
General Government			
Contractual Services	0	2,147	2,147
Victims of Crimes Act			
Security of Persons and Property			
Contractual Services	14,116	21,390	7,274
Other	934	1,225	291
Courts Community Service			
Security of Persons and Property			
Contractual Services	0	3,705	3,705
Engineering and Building Department			
General Government			
Contractual Services	0	5,078	5,078
Capital Projects Fund			
Street Resurfacing			
Capital Outlay	0	34,664	34,664
Permanent Improvement			
Contractual Services	153,159	195,229	42,070
Enterprise Funds			
Water Fund			
Principal Retirement	0	41,869	41,869
Sewer Fund			
Personal Services	256,650	388,190	131,540
Contractual Services	62,907	250,488	187,581
Capital Outlay	138,929	315,123	176,194

**CITY OF EAST CLEVELAND
CUYAHOGA COUNTY
SCHEDULE OF FINDINGS
OMB CIRCULAR A - §133 - §505
FOR THE YEAR ENDED DECEMBER 31, 2009
(Continued)**

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

Finding Number	2009-05
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(Continued)

This weakness may result in the City spending more than their available resources.

We recommend the City compare appropriations with expenditures plus encumbrances on a regular basis to ensure appropriations are not exceeded.

Official's Response

The City will compare appropriations with expenditures plus encumbrances on a monthly basis to ensure appropriations are not exceeded.

Finding Number	2009-06
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Material Noncompliance Finding – Appropriations Exceeded Actual Receipts Plus Unencumbered Cash

Ohio Rev. Code § 5705.36(A)(2) allows all subdivisions to request increased amended certificates of estimated resources and reduced certificates upon determination by the fiscal officer that revenue to be collected will be greater or less than the amount in the official certificate of estimated resources. Ohio Rev. Code § 5705.36(A)(4) requires obtaining a reduced amended certificate if the amount of the deficiency will reduce available resources below the current level of appropriations.

At December 31, 2009, the following funds had appropriations which exceeded actual receipts plus unencumbered cash:

<u>Fund Name</u>	<u>Actual Receipts Plus Unencumbered Cash</u>	<u>Final Appropriations</u>	<u>Variance</u>
General Fund	\$17,958,961	\$20,385,482	(\$2,426,521)
Older Americans Title III B/C	(400,904)	248,968	(649,872)
CDBG	674,667	1,591,098	(916,431)
HOME 99	(223,248)	2,315,686	(2,538,934)
HOME Program Fund	(35,580)	246,858	(382,438)
Water	157,602	864,414	(706,812)
Sewer	(228,802)	573,680	(802,482)

This weakness resulted in appropriations which exceed actual resources and deficit fund balances.

We recommend the City compare actual receipts with the certificate of estimated resources and appropriations on a monthly basis. If the actual receipts are less than the certificate then the City should obtain a reduced amended certificate and adjust the appropriations accordingly.

Official's Response

The City will compare actual receipts with the Certificate of Estimated Resources and appropriations on a monthly basis, amending the certificate and adjusting the appropriations when necessary.

**CITY OF EAST CLEVELAND
 CUYAHOGA COUNTY
 SCHEDULE OF FINDINGS
 OMB CIRCULAR A - §133 - §505
 FOR THE YEAR ENDED DECEMBER 31, 2009
 (Continued)**

2. FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS
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Finding Number	2009-07
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Material Noncompliance Finding – Proper Certification

Ohio Revised Code Section 5705.41(D)(1) prohibits a subdivision or taxing entity from making any contract or ordering any expenditure of money unless a certificate signed by the fiscal officer is attached thereto. The fiscal officer must certify the amount required to meet any such contract or expenditure has been lawfully appropriated and is in the treasury, or is in the process of collection to the credit of an appropriate fund free from any previous encumbrance. Further, contracts and orders for expenditures lacking prior certification shall be null and void.

There are several exceptions to the standard requirement stated above that a fiscal officer’s certificate must be obtained prior to a subdivision or taxing authority entering into a contract or order involving the expenditure of money. The main exceptions are: “then and now” certificates, blanket certificates, and super blanket certificates, which are provided for in sections 5705.41(D)(1) and 5705.41(D)(3), respectively, of the Ohio Revised Code.

1. “Then and Now” certificate – If the fiscal officer can certify that both at the time the contract or order was made (“then”), and at the time the fiscal officer is completing the certification (“now”), that sufficient funds were available or in the process of collection, to the credit of a proper fund, properly appropriated and free from any previous encumbrance, the City can authorize the drawing of a warrant for the payment of the amount due. The City has thirty days from the receipt of the “then and now” certificate to approve payment by ordinance or resolution.

Amounts of less than \$3,000 may be paid by the fiscal officer without a resolution or ordinance upon completion of the “then and now” certificate, provided the expenditure is otherwise lawful. This does not eliminate any otherwise applicable requirement for approval of expenditures by the City.

2. Blanket Certificate – Fiscal officers may prepare “blanket” certificates for a certain sum of money not in excess of an amount established by resolution or ordinance adopted by a majority of the members of the legislative authority against any specific line item account over a period not running beyond the end of the current fiscal year. The blanket certificates may, but need not, be limited to a specific vendor. Only one blanket certificate may be outstanding at one particular time for any one particular line item appropriation.

3. Super Blanket Certificate – The City may also make expenditures and contracts for any amount from a specific line-item appropriation account in a specified fund upon certification of the fiscal officer for most professional services, fuel, oil, food items, and any other specific recurring and reasonably predictable operating expense. This certification is not to extend beyond the current year. More than one super blanket certificate may be outstanding at a particular time for any line item appropriation.

During a test of 37 transactions, we noted 18 instances (49%) in which the transaction was not certified by the fiscal officer at the time the commitment was incurred and there was no evidence the City followed the aforementioned exceptions. Unless the exceptions noted above are used, prior certification is not only required by statute but is a key control in the disbursement process to assure that purchase commitments receive prior approval. Failure to properly certify the availability of funds can result in overspending funds and negative cash fund balances.

**CITY OF EAST CLEVELAND
CUYAHOGA COUNTY
SCHEDULE OF FINDINGS
OMB CIRCULAR A - §133 - §505
FOR THE YEAR ENDED DECEMBER 31, 2009
(Continued)**

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

Finding Number	2009-07
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(Continued)

We recommend the City certify purchases to which section 5705.41(D) applies. To improve controls over disbursements and to help reduce the possibility of the City's funds exceeding budgetary spending limitations, we recommend the Fiscal Officer certify that funds are or will be available prior to obligation by the City. When prior certification is not possible, "then and now" certification should be used. The fiscal officer should post approved purchase commitments to the proper appropriation code, to reduce the available appropriation.

Official's Response:

The City has instituted a policy where the Finance Director must certify that funds are or will be available for purchases prior to obligation by the City.

3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS
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Finding Number	2009-08
CFDA Title and Number	CDBG – Entitlement Grants Cluster: Community Development Block Grants/Entitlement Grants, CFDA # 14.218 Community Development Block Grant ARRA Entitlement Grants (CDBG-R) - (Recovery Act Funded), CFDA # 14.253
Federal Award Number / Year	2009
Federal Agency	U.S. Department of Housing and Urban Development
Pass-Through Agency	NA

Material Weakness, Material Noncompliance, Special Testing and Provisions - Tracking ARRA Funding Finding

2 CFR section 176.210(a) and (b), (a) states that recipients of stimulus monies are required to maintain records that identify adequately the source and application of Recovery Act funds in order to maximize the transparency and accountability of funds authorized under the American Recovery and Reinvestment Act (ARRA) of 2009 and (b) states recipients covered by the Single Audit Act Amendments of 1996 and OMB Circular A-133, "Audits of States, Local Governments, and Non-Profit Organizations," recipients agree to separately identify the expenditures for Federal awards under the Recovery Act on the Schedule of Expenditures of Federal Awards (SEFA) and the Data Collection Form (SF-SAC) required by OMB Circular.

CITY OF EAST CLEVELAND
CUYAHOGA COUNTY
SCHEDULE OF FINDINGS
OMB CIRCULAR A - §133 - §505
FOR THE YEAR ENDED DECEMBER 31, 2009
(Continued)

3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS
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Finding Number	2009-08
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(Continued)

During a review of the CDBG – Entitlement Grants Cluster, we noted that Recovery Act expenditures were not accounted for in separate expense line items than Non-Recovery Act expenditures in the City's accounting system, nor did the City have any appropriate internal control in place to adequately identify Recovery Act expenditures from Non-Recovery Act expenditures. Due to the nature of the different types of expenditures the Recovery Act funds were being used for versus the type of expenditures the Non-Recovery Act funds were being used for, the City was ultimately able to identify the total amount of Recovery Act monies expended during the fiscal year by using the IDIS Online management system used for all Community Planning and Development formula grants and is accessed through the HUD website. Without the access to the IDIS Online management system, it would have been difficult to identify expenditures made with Recovery Act funds from those made with Non-Recovery Act funds as there was not an adequate internal control system in place.

The failure to account for Recovery Act expenditures separately from Non-Recovery Act expenditures could result in spending federal funds on unallowable activities. Furthermore, failure to account for Recovery Act expenditures separately from Non-Recovery Act expenditures hinders the ability to accurately report expenditures of ARRA monies on the City's Schedule of Expenditures of Federal Awards.

We recommend the City establish a separate fund/account for Recovery Act activity.

Official's Response:

The City shall establish a separate fund/account for Recovery Act activity.

**CITY OF EAST CLEVELAND
CUYAHOGA COUNTY
SCHEDULE OF PRIOR AUDIT FINDINGS
OMB CIRCULAR A -133 § .315 (b)
FOR THE YEAR ENDED DECEMBER 31, 2009**

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; Explain
2008-01	Various adjustments to the financial statements and the City's accounting system were required.	No	Not corrected, see finding 2009-01.
2008-02	An instance was noted in which the employee was paid in excess of the amount authorized by Council. However, the salary paid was authorized by the Mayor and Director of Human Resources.	Yes	
2008-03	Several funds had total final appropriations in excess of estimated resources plus carryover balances, contrary to Ohio Rev. Code § 5705.39.	No	Not corrected, see finding 2009-03.
2008-04	Several funds had negative cash fund balances, contrary to Ohio Rev. Code § 5705.10(H).	No	Not corrected, see finding 2009-04.
2008-05	Several funds had expenditures plus encumbrances in excess of appropriations, contrary to Ohio Rev. Code § 5705.41(B).	No	Not corrected, see finding 2009-05.
2008-06	Several funds had final appropriations which exceeded actual receipts plus unencumbered cash, contrary to Ohio Rev. Code § 5705.36(A)(2).	No	Not corrected, see finding 2009-06.
2008-07	Separate funds were not established for the two federal programs, CFDA # 93.044 and #93.045.	No	No longer valid.
2008-08	Several instances were noted in which the transaction was not certified by the fiscal officer at the time the commitment, contrary to Ohio Rev. Code § 5705.41(D)(1).	No	Not corrected, see finding 2009-07.
2008-09	The City did not make timely payments to the Ohio Police and Fire Pension Fund during, contrary to Ohio Rev. Code § 742.35.	No	Partially corrected, see 2009 management letter

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Dave Yost • 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
DECEMBER 27, 2012**