



**CITY OF EAST CLEVELAND
CUYAHOGA COUNTY**

SINGLE AUDIT

FOR THE YEAR ENDED DECEMBER 31, 2002



**Auditor of State
Betty Montgomery**

**CITY OF EAST CLEVELAND
CUYAHOGA COUNTY**

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Auditor of State Betty Montgomery

INDEPENDENT ACCOUNTANTS' REPORT

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

We have audited the accompanying general-purpose financial statements of the City of East Cleveland, Cuyahoga County, Ohio, (the City) as of and for the year ended December 31, 2002, as listed in the table of contents. These general-purpose financial statements are the responsibility of the City's management. Our responsibility is to express an opinion on these general-purpose financial statements based on our audit.

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

Charges for services reported in the Enterprise Fund Type for the year ended December 31, 2002 were processed by a service organization that is independent of the City. The service organization did not provide us with information regarding the design or proper operation of its internal control relative to processing the City's charges for services transactions. We were unable to perform procedures to satisfy ourselves as to the proper processing of water and sewer billings recorded as charges for services. Those charges for services represent 98% of the revenues for the Enterprise Fund Type.

In our opinion, except for the effects of such adjustments, if any, as might have been determined to be necessary had we been able to examine certain information regarding charges for services, the general-purpose financial statements referred to above present fairly, in all material respects, the financial position of the City of East Cleveland, Cuyahoga County, Ohio, as of December 31, 2002, and the results of its operations and the cash flows of its proprietary fund type for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 22, 2005, on our consideration of the City's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. That report describes the scope of our testing of internal control over financial reporting and compliance and the results of that testing. It does not opine on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and you should read it in conjunction with this report in assessing the results of our audit.

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

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

Betty Montgomery
Auditor of State

December 22, 2005

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City of East Cleveland, Ohio
Combined Balance Sheet
All Fund Types and Account Groups
December 31, 2002

| | Governmental Fund Types | | | |
|--|-------------------------|--------------------|-----------------|---------------------|
| | General | Special Revenue | Debt Service | Capital Projects |
| Assets and Other Debits | | | | |
| Assets | | | | |
| Equity in Pooled Cash and Cash Equivalents | \$5,064 | \$979,439 | \$11,871 | \$324,218 |
| Cash and Cash Equivalents in Segregated Accounts | 0 | 124,771 | 0 | 0 |
| Cash and Cash Equivalents with Fiscal and Escrow Agents | 0 | 0 | 3,282 | 0 |
| Receivables: | | | | |
| Taxes | 6,195,094 | 153,656 | 0 | 512,185 |
| Accounts | 45,352 | 0 | 0 | 0 |
| Interfund | 2,781,890 | 320,250 | 0 | 664,196 |
| Accrued Interest | 467 | 0 | 0 | 0 |
| Intergovernmental | 2,284,255 | 4,187,628 | 0 | 23,880 |
| Materials and Supplies Inventory | 44,356 | 3,585 | 0 | 0 |
| Prepaid Items | 54,161 | 0 | 0 | 0 |
| Fixed Assets (Net, where applicable, of Accumulated Depreciation) | 0 | 0 | 0 | 0 |
| Other Debits | | | | |
| Amount Available in Debt Service Fund for Retirement of General Obligation Bonds | 0 | 0 | 0 | 0 |
| Amount to be Provided from General Government Resources | 0 | 0 | 0 | 0 |
| Total Assets and Other Debits | \$11,410,639 | \$5,769,329 | \$15,153 | \$1,524,479 |

| Proprietary Fund Type | Fiduciary Fund Type | Account Groups | | Totals (Memorandum Only) |
|--------------------------|------------------------|----------------------------|-------------------------------------|------------------------------------|
| | | General Fixed Assets | General Long-Term Obligations | |
| Enterprise | Agency | | | |
| \$0 | \$457,598 | \$0 | \$0 | \$1,778,190 |
| 0 | 347,708 | 0 | 0 | 472,479 |
| 0 | 0 | 0 | 0 | 3,282 |
| 0 | 0 | 0 | 0 | 6,860,935 |
| 2,921,538 | 0 | 0 | 0 | 2,966,890 |
| 0 | 0 | 0 | 0 | 3,766,336 |
| 0 | 0 | 0 | 0 | 467 |
| 0 | 0 | 0 | 0 | 6,495,763 |
| 0 | 0 | 0 | 0 | 47,941 |
| 0 | 0 | 0 | 0 | 54,161 |
| 6,479,693 | 0 | 11,667,865 | 0 | 18,147,558 |
| 0 | 0 | 0 | 15,153 | 15,153 |
| 0 | 0 | 0 | 5,210,147 | 5,210,147 |
| <u>\$9,401,231</u> | <u>\$805,306</u> | <u>\$11,667,865</u> | <u>\$5,225,300</u> | <u>\$45,819,302</u> (continued) |

City of East Cleveland, Ohio
Combined Balance Sheet
All Fund Types and Account Groups (continued)
December 31, 2002

| | Governmental Fund Types | | | |
|---|-------------------------|--------------------|-----------------|---------------------|
| | General | Special Revenue | Debt Service | Capital Projects |
| Liabilities, Fund Equity and Other Credits | | | | |
| Liabilities | | | | |
| Accounts Payable | \$745,083 | \$67,779 | \$0 | \$10,368 |
| Contracts Payable | 0 | 136,171 | 0 | 0 |
| Interfund Payable | 0 | 780,033 | 0 | 46,374 |
| Accrued Wages | 391,765 | 91,584 | 0 | 0 |
| Compensated Absences Payable | 25,338 | 80 | 0 | 0 |
| Intergovernmental Payable | 139,012 | 26,798 | 0 | 0 |
| Deferred Revenue | 7,675,445 | 3,963,107 | 0 | 536,063 |
| Undistributed Monies | 0 | 0 | 0 | 0 |
| Deposits Held and Due to Others | 0 | 0 | 0 | 0 |
| Capital Leases Payable | 0 | 0 | 0 | 0 |
| OPWC Loans Payable | 0 | 0 | 0 | 0 |
| Police and Fire Liability | 0 | 0 | 0 | 0 |
| Total Liabilities | 8,976,643 | 5,065,552 | 0 | 592,805 |
| Fund Equity and Other Credits | | | | |
| Investment in General Fixed Assets | 0 | 0 | 0 | 0 |
| Contributed Capital | 0 | 0 | 0 | 0 |
| Retained Earnings (Deficit) | 0 | 0 | 0 | 0 |
| Fund Balance: | | | | |
| Reserved for Encumbrances | 46,936 | 56,615 | 0 | 13,254 |
| Reserved for Inventory | 44,356 | 3,585 | 0 | 0 |
| Reserved for Long-Term Advances | 565,054 | 0 | 0 | 0 |
| Reserved for Long-Term Interfund Receivables | 2,216,835 | 0 | 0 | 0 |
| Unreserved, Undesignated (Deficit) | (439,185) | 643,577 | 15,153 | 918,420 |
| Total Fund Equity and Other Credits | 2,433,996 | 703,777 | 15,153 | 931,674 |
| Total Liabilities, Fund Equity and Other Credits | \$11,410,639 | \$5,769,329 | \$15,153 | \$1,524,479 |

See accompanying notes to the general purpose financial statements

| Proprietary Fund Type | Fiduciary Fund Types | Account Groups | | Totals (Memorandum Only) |
|--------------------------|-------------------------|----------------------------|-------------------------------------|--------------------------------|
| | | General Fixed Assets | General Long-Term Obligations | |
| Enterprise | Agency | | | |
| \$642,031 | \$0 | \$0 | \$0 | \$1,465,261 |
| 2,097,581 | 0 | 0 | 0 | 2,233,752 |
| 2,939,929 | 0 | 0 | 0 | 3,766,336 |
| 974 | 0 | 0 | 0 | 484,323 |
| 0 | 0 | 0 | 1,899,363 | 1,924,781 |
| 1,173 | 0 | 0 | 1,279,782 | 1,446,765 |
| 0 | 0 | 0 | 0 | 12,174,615 |
| 0 | 347,708 | 0 | 0 | 347,708 |
| 0 | 457,598 | 0 | 0 | 457,598 |
| 0 | 0 | 0 | 408,508 | 408,508 |
| 534,315 | 0 | 0 | 0 | 534,315 |
| 0 | 0 | 0 | 1,637,647 | 1,637,647 |
| <u>6,216,003</u> | <u>805,306</u> | <u>0</u> | <u>5,225,300</u> | <u>26,881,609</u> |
| 0 | 0 | 11,667,865 | 0 | 11,667,865 |
| 7,832,733 | 0 | 0 | 0 | 7,832,733 |
| (4,647,505) | 0 | 0 | 0 | (4,647,505) |
| 0 | 0 | 0 | 0 | 116,805 |
| 0 | 0 | 0 | 0 | 47,941 |
| 0 | 0 | 0 | 0 | 565,054 |
| 0 | 0 | 0 | 0 | 2,216,835 |
| 0 | 0 | 0 | 0 | 1,137,965 |
| <u>3,185,228</u> | <u>0</u> | <u>11,667,865</u> | <u>0</u> | <u>18,937,693</u> |
| <u>\$9,401,231</u> | <u>\$805,306</u> | <u>\$11,667,865</u> | <u>\$5,225,300</u> | <u>\$45,819,302</u> |

City of East Cleveland, Ohio
*Combined Statement of Revenues, Expenditures
and Changes in Fund Balances
All Governmental Fund Types
For the Year Ended December 31, 2002*

| | Governmental Fund | |
|--|--------------------|--------------------|
| | General | Special Revenue |
| Revenues | | |
| Municipal Income Taxes | \$7,881,263 | \$0 |
| Property and Other Taxes | 1,712,709 | 101,662 |
| Charges for Services | 479,825 | 685,718 |
| Licenses and Permits | 278,706 | 57,139 |
| Fines and Forfeitures | 645,836 | 72,852 |
| Intergovernmental | 4,250,279 | 2,764,423 |
| Special Assessments | 407,721 | 0 |
| Interest | 56,404 | 301 |
| Other | 552,876 | 51,687 |
| | <u>16,265,619</u> | <u>3,733,782</u> |
| Expenditures | | |
| Current: | | |
| General Government | 4,373,687 | 1,260,266 |
| Security of Persons and Property | 9,215,208 | 1,163,525 |
| Public Health and Welfare | 0 | 94,959 |
| Transportation | 606,257 | 633,508 |
| Community Environment | 271,660 | 1,717,917 |
| Basic Utility Services | 791,930 | 0 |
| Leisure Time Activities | 239,116 | 290 |
| Capital Outlay | 0 | 301,617 |
| Debt Service: | | |
| Principal Retirement | 12,695 | 83,963 |
| Interest and Fiscal Charges | 2,519 | 91,205 |
| | <u>15,513,072</u> | <u>5,347,250</u> |
| <i>Total Expenditures</i> | | |
| | <u>15,513,072</u> | <u>5,347,250</u> |
| <i>Excess of Revenues Over (Under) Expenditures</i> | <u>752,547</u> | <u>(1,613,468)</u> |
| Other Financing Sources (Uses) | | |
| Operating Transfers In | 0 | 204,000 |
| Operating Transfers Out | (236,020) | 0 |
| | <u>(236,020)</u> | <u>204,000</u> |
| <i>Total Other Sources (Uses)</i> | | |
| | <u>(236,020)</u> | <u>204,000</u> |
| <i>Excess of Revenues and Other Financing Sources Over (Under) Expenditures and Other Financing Uses</i> | <u>516,527</u> | <u>(1,409,468)</u> |
| <i>Fund Balances Beginning of Year</i> | 1,887,549 | 2,113,397 |
| Increase (Decrease) in Reserve for Inventory | 29,920 | (152) |
| <i>Fund Balances End of Year</i> | <u>\$2,433,996</u> | <u>\$703,777</u> |

See accompanying notes to the general purpose financial statements

| Types | | Totals (Memorandum Only) |
|-----------------|---------------------|--------------------------------|
| Debt Service | Capital Projects | |
| \$0 | \$0 | \$7,881,263 |
| 0 | 338,873 | 2,153,244 |
| 0 | 0 | 1,165,543 |
| 0 | 0 | 335,845 |
| 0 | 0 | 718,688 |
| 0 | 607,262 | 7,621,964 |
| 0 | 0 | 407,721 |
| 131 | 705 | 57,541 |
| 0 | 0 | 604,563 |
| <u>131</u> | <u>946,840</u> | <u>20,946,372</u> |
| 0 | 0 | 5,633,953 |
| 0 | 0 | 10,378,733 |
| 0 | 0 | 94,959 |
| 0 | 0 | 1,239,765 |
| 0 | 0 | 1,989,577 |
| 0 | 0 | 791,930 |
| 0 | 0 | 239,406 |
| 0 | 981,574 | 1,283,191 |
| 0 | 33,557 | 130,215 |
| 0 | 9,028 | 102,752 |
| <u>0</u> | <u>1,024,159</u> | <u>21,884,481</u> |
| <u>131</u> | <u>(77,319)</u> | <u>(938,109)</u> |
| 0 | 32,020 | 236,020 |
| <u>0</u> | <u>0</u> | <u>(236,020)</u> |
| <u>0</u> | <u>32,020</u> | <u>0</u> |
| 131 | (45,299) | (938,109) |
| 15,022 | 976,973 | 4,992,941 |
| <u>0</u> | <u>0</u> | <u>29,768</u> |
| <u>\$15,153</u> | <u>\$931,674</u> | <u>\$4,084,600</u> |

City of East Cleveland, Ohio
*Combined Statement of Revenues, Expenditures and
Changes in Fund Balances - Budget (Non-GAAP Basis) and Actual
All Governmental Fund Types
For the Year Ended December 31, 2002*

| | General Fund | | | Variance Favorable (Unfavorable) |
|--|--------------------|--------------------|--------------------|--|
| | Original Budget | Final Budget | Actual | |
| Revenues | | | | |
| Municipal Income Taxes | \$7,306,692 | \$7,306,692 | \$7,844,400 | \$537,708 |
| Property and Other Taxes | 2,288,340 | 2,288,340 | 1,713,725 | (574,615) |
| Charges for Services | 555,919 | 555,919 | 445,834 | (110,085) |
| Licenses and Permits | 538,079 | 538,079 | 372,936 | (165,143) |
| Fines and Forfeitures | 637,500 | 637,500 | 648,891 | 11,391 |
| Intergovernmental | 4,375,889 | 4,375,889 | 4,246,284 | (129,605) |
| Special Assessments | 200,000 | 200,000 | 407,721 | 207,721 |
| Interest | 71,000 | 71,000 | 56,098 | (14,902) |
| Other | 5,015 | 5,015 | 545,169 | 540,154 |
| <i>Total Revenues</i> | <u>15,978,434</u> | <u>15,978,434</u> | <u>16,281,058</u> | <u>302,624</u> |
| Expenditures | | | | |
| Current: | | | | |
| General Government | 4,880,007 | 4,866,727 | 4,480,977 | 385,750 |
| Security of Persons and Property | 8,931,541 | 8,931,821 | 8,843,874 | 87,947 |
| Public Health and Welfare | 0 | 0 | 0 | 0 |
| Transportation | 583,306 | 613,306 | 610,581 | 2,725 |
| Community Environment | 273,090 | 251,090 | 244,689 | 6,401 |
| Basic Utility Services | 1,816,075 | 1,481,075 | 849,890 | 631,185 |
| Leisure Time Activities | 296,804 | 246,804 | 245,583 | 1,221 |
| Capital Outlay | 0 | 0 | 0 | 0 |
| Debt Service: | | | | |
| Principal Retirement | 0 | 0 | 0 | 0 |
| <i>Total Expenditures</i> | <u>16,780,823</u> | <u>16,390,823</u> | <u>15,275,594</u> | <u>1,115,229</u> |
| <i>Excess of Revenues Over (Under) Expenditures</i> | <u>(802,389)</u> | <u>(412,389)</u> | <u>1,005,464</u> | <u>1,417,853</u> |
| Other Financing Sources (Uses) | | | | |
| Advances In | 0 | 0 | 0 | 0 |
| Advances Out | (600,000) | (600,000) | (565,054) | 34,946 |
| Operating Transfers In | 0 | 0 | 0 | 0 |
| Operating Transfers Out | (300,720) | (300,720) | (236,020) | 64,700 |
| <i>Total Other Sources (Uses)</i> | <u>(900,720)</u> | <u>(900,720)</u> | <u>(801,074)</u> | <u>99,646</u> |
| <i>Excess of Revenues and Other Financing Sources Over (Under) Expenditures and Other Financing Uses</i> | <u>(1,703,109)</u> | <u>(1,313,109)</u> | <u>204,390</u> | <u>1,517,499</u> |
| <i>Fund Balances Beginning of Year</i> | 1,611,723 | 1,611,723 | 1,611,723 | 0 |
| <i>Prior Year Encumbrances Appropriated</i> | <u>294,975</u> | <u>294,975</u> | <u>294,975</u> | <u>0</u> |
| <i>Fund Balances (Deficit) End of Year</i> | <u>\$203,589</u> | <u>\$593,589</u> | <u>\$2,111,088</u> | <u>\$1,517,499</u> |

| Special Revenue Funds | | | | Debt Service Funds | | | |
|-----------------------|----------------------|------------------|----------------------------------|--------------------|-----------------|-----------------|----------------------------------|
| Original Budget | Final Budget | Actual | Variance Favorable (Unfavorable) | Original Budget | Final Budget | Actual | Variance Favorable (Unfavorable) |
| \$0 | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 |
| 120,174 | 120,174 | 101,662 | (18,512) | 0 | 0 | 0 | 0 |
| 1,057,000 | 1,057,000 | 690,308 | (366,692) | 0 | 0 | 0 | 0 |
| 121,000 | 121,000 | 57,139 | (63,861) | 0 | 0 | 0 | 0 |
| 75,061 | 73,167 | 51,564 | (21,603) | 0 | 0 | 0 | 0 |
| 6,217,732 | 3,715,305 | 3,472,158 | (243,147) | 0 | 0 | 0 | 0 |
| 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| 6,000 | 6,000 | 301 | (5,699) | 201 | 201 | 131 | (70) |
| 65,026 | 68,846 | 51,687 | (17,159) | 0 | 0 | 0 | 0 |
| <u>7,661,993</u> | <u>5,161,492</u> | <u>4,424,819</u> | <u>(736,673)</u> | <u>201</u> | <u>201</u> | <u>131</u> | <u>(70)</u> |
| 3,209,696 | 2,128,131 | 1,198,172 | 929,959 | 11,832 | 11,832 | 0 | 11,832 |
| 2,303,252 | 1,910,482 | 1,292,343 | 618,139 | 0 | 0 | 0 | 0 |
| 100,000 | 100,000 | 92,456 | 7,544 | 0 | 0 | 0 | 0 |
| 752,199 | 752,199 | 674,330 | 77,869 | 0 | 0 | 0 | 0 |
| 3,992,150 | 3,187,567 | 1,694,049 | 1,493,518 | 0 | 0 | 0 | 0 |
| 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| 480 | 480 | 290 | 190 | 0 | 0 | 0 | 0 |
| 412,895 | 576,723 | 314,042 | 262,681 | 0 | 0 | 0 | 0 |
| <u>0</u> | <u>0</u> | <u>0</u> | <u>0</u> | <u>101</u> | <u>101</u> | <u>0</u> | <u>101</u> |
| <u>10,770,672</u> | <u>8,655,582</u> | <u>5,265,682</u> | <u>3,389,900</u> | <u>11,933</u> | <u>11,933</u> | <u>0</u> | <u>11,933</u> |
| <u>(3,108,679)</u> | <u>(3,494,090)</u> | <u>(840,863)</u> | <u>2,653,227</u> | <u>(11,732)</u> | <u>(11,732)</u> | <u>131</u> | <u>11,863</u> |
| 65,054 | 50,000 | 65,054 | 15,054 | 0 | 0 | 0 | 0 |
| 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| 409,000 | 204,000 | 204,000 | 0 | 0 | 0 | 0 | 0 |
| 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| <u>474,054</u> | <u>254,000</u> | <u>269,054</u> | <u>15,054</u> | <u>0</u> | <u>0</u> | <u>0</u> | <u>0</u> |
| (2,634,625) | (3,240,090) | (571,809) | 2,668,281 | (11,732) | (11,732) | 131 | 11,863 |
| 613,430 | 613,430 | 613,430 | 0 | 11,740 | 11,740 | 11,740 | 0 |
| 443,421 | 443,421 | 443,421 | 0 | 0 | 0 | 0 | 0 |
| <u>(\$1,577,774)</u> | <u>(\$2,183,239)</u> | <u>\$485,042</u> | <u>\$2,668,281</u> | <u>\$8</u> | <u>\$8</u> | <u>\$11,871</u> | <u>\$11,863</u> |

(continued)

City of East Cleveland, Ohio
*Combined Statement of Revenues, Expenditures and
Changes in Fund Balances - Budget (Non-GAAP Basis) and Actual
All Governmental Fund Types (continued)
For the Year Ended December 31, 2002*

| | Capital Projects Funds | | | |
|--|------------------------|------------------|------------------|--|
| | Original Budget | Final Budget | Actual | Variance Favorable (Unfavorable) |
| Revenues | | | | |
| Municipal Income Taxes | \$0 | \$0 | \$0 | \$0 |
| Property and Other Taxes | 380,583 | 380,583 | 338,873 | (41,710) |
| Charges for Services | 0 | 0 | 0 | 0 |
| Licenses and Permits | 0 | 0 | 0 | 0 |
| Fines and Forfeitures | 0 | 0 | 0 | 0 |
| Intergovernmental | 207,980 | 207,980 | 607,262 | 399,282 |
| Special Assessments | 0 | 0 | 0 | 0 |
| Interest | 0 | 0 | 705 | 705 |
| Other | 0 | 0 | 0 | 0 |
| <i>Total Revenues</i> | <u>588,563</u> | <u>588,563</u> | <u>946,840</u> | <u>358,277</u> |
| Expenditures | | | | |
| Current: | | | | |
| General Government | 0 | 0 | 0 | 0 |
| Security of Persons and Property | 0 | 0 | 0 | 0 |
| Public Health and Welfare | 0 | 0 | 0 | 0 |
| Transportation | 0 | 0 | 0 | 0 |
| Community Environment | 0 | 0 | 0 | 0 |
| Basic Utility Services | 0 | 0 | 0 | 0 |
| Leisure Time Activities | 0 | 0 | 0 | 0 |
| Capital Outlay | 1,679,913 | 1,551,718 | 1,039,942 | 511,776 |
| Debt Service: | | | | |
| Principal Retirement | 0 | 0 | 0 | 0 |
| <i>Total Expenditures</i> | <u>1,679,913</u> | <u>1,551,718</u> | <u>1,039,942</u> | <u>511,776</u> |
| <i>Excess of Revenues Over (Under) Expenditures</i> | <u>(1,091,350)</u> | <u>(963,155)</u> | <u>(93,102)</u> | <u>870,053</u> |
| Other Financing Sources (Uses) | | | | |
| Advances In | 0 | 0 | 0 | 0 |
| Advances Out | 0 | 0 | 0 | 0 |
| Operating Transfers In | 32,020 | 32,020 | 32,020 | 0 |
| Operating Transfers Out | 0 | 0 | 0 | 0 |
| <i>Total Other Sources (Uses)</i> | <u>32,020</u> | <u>32,020</u> | <u>32,020</u> | <u>0</u> |
| <i>Excess of Revenues and Other Financing Sources Over (Under) Expenditures and Other Financing Uses</i> | <u>(1,059,330)</u> | <u>(931,135)</u> | <u>(61,082)</u> | <u>870,053</u> |
| <i>Fund Balances Beginning of Year</i> | 968,115 | 968,115 | 968,115 | 0 |
| Prior Year Encumbrances Appropriated | <u>15,421</u> | <u>15,421</u> | <u>15,421</u> | <u>0</u> |
| <i>Fund Balances (Deficit) End of Year</i> | <u>(\$75,794)</u> | <u>\$52,401</u> | <u>\$922,454</u> | <u>\$870,053</u> |

See accompanying notes to the general purpose financial statements

Totals (Memorandum Only)

| Original Budget | Final Budget | Actual | Variance Favorable (Unfavorable) |
|--------------------|--------------------|--------------------|--|
| \$7,306,692 | \$7,306,692 | \$7,844,400 | \$537,708 |
| 2,789,097 | 2,789,097 | 2,154,260 | (634,837) |
| 1,612,919 | 1,612,919 | 1,136,142 | (476,777) |
| 659,079 | 659,079 | 430,075 | (229,004) |
| 712,561 | 710,667 | 700,455 | (10,212) |
| 10,801,601 | 8,299,174 | 8,325,704 | 26,530 |
| 200,000 | 200,000 | 407,721 | 207,721 |
| 77,201 | 77,201 | 57,235 | (19,966) |
| 70,041 | 73,861 | 596,856 | 522,995 |
| <u>24,229,191</u> | <u>21,728,690</u> | <u>21,652,848</u> | <u>(75,842)</u> |
| 8,101,535 | 7,006,690 | 5,679,149 | 1,327,541 |
| 11,234,793 | 10,842,303 | 10,136,217 | 706,086 |
| 100,000 | 100,000 | 92,456 | 7,544 |
| 1,335,505 | 1,365,505 | 1,284,911 | 80,594 |
| 4,265,240 | 3,438,657 | 1,938,738 | 1,499,919 |
| 1,816,075 | 1,481,075 | 849,890 | 631,185 |
| 297,284 | 247,284 | 245,873 | 1,411 |
| 2,092,808 | 2,128,441 | 1,353,984 | 774,457 |
| <u>101</u> | <u>101</u> | <u>0</u> | <u>101</u> |
| <u>29,243,341</u> | <u>26,610,056</u> | <u>21,581,218</u> | <u>5,028,838</u> |
| <u>(5,014,150)</u> | <u>(4,881,366)</u> | <u>71,630</u> | <u>4,952,996</u> |
| 65,054 | 50,000 | 65,054 | 15,054 |
| (600,000) | (600,000) | (565,054) | 34,946 |
| 441,020 | 236,020 | 236,020 | 0 |
| (300,720) | (300,720) | (236,020) | 64,700 |
| <u>(394,646)</u> | <u>(614,700)</u> | <u>(500,000)</u> | <u>114,700</u> |
| (5,408,796) | (5,496,066) | (428,370) | 5,067,696 |
| 4,859,191 | 4,859,191 | 3,205,008 | 1,654,183 |
| <u>979,675</u> | <u>753,817</u> | <u>753,817</u> | <u>0</u> |
| <u>\$430,070</u> | <u>\$116,942</u> | <u>\$3,530,455</u> | <u>\$6,721,879</u> |

City of East Cleveland, Ohio
*Combined Statement of Revenues,
Expenses and Changes in Fund Equity
Proprietary Fund Type
For the Year Ended December 31, 2002*

| | <u>Enterprise</u> |
|--|-------------------|
| Operating Revenues | |
| Charges for Services | \$7,204,108 |
| Other | 119,977 |
| | 7,324,085 |
| Operating Expenses | |
| Personal Services | 257,585 |
| Contractual Services | 10,933,340 |
| Materials and Supplies | 297,184 |
| Other | 163,631 |
| Depreciation | 348,483 |
| | 12,000,223 |
| <i>Total Operating Expenses</i> | |
| <i>Operating Loss</i> | (4,676,138) |
| Non-Operating Revenues | |
| Interest | 3,269 |
| | 3,269 |
| <i>Net Loss</i> | (4,672,869) |
| <i>Retained Earnings Beginning of Year</i> | 25,364 |
| <i>Retained Earnings (Deficit) End of Year</i> | (4,647,505) |
| <i>Contributed Capital Beginning and End of Year</i> | 7,832,733 |
| <i>Total Fund Equity End of Year</i> | \$3,185,228 |

See accompanying notes to the general purpose financial statements

City of East Cleveland, Ohio
Combined Statement of Cash Flows
Proprietary Fund Type
For the Year Ended December 31, 2002

| | Enterprise |
|---|---------------|
| <i>Increase (Decrease) in Cash and Cash Equivalents</i> | |
| Cash Flows From Operating Activities | |
| Cash Received From Customers | \$8,288,672 |
| Cash Payments to Suppliers for Materials and Supplies | (247,869) |
| Cash Payments for Employee Services and Benefits | (302,875) |
| Cash Payments for Contractual Services | (8,843,691) |
| Other Operating Revenues | 119,977 |
| Other Operating Expenses | (163,631) |
| <i>Net Cash Used for Operating Activities</i> | (1,149,417) |
| Cash Flows from Noncapital Financing Activities: | |
| Advances In | 2,939,929 |
| Cash Flows From Capital and Related Financing Activities | |
| Principal Paid on OPWC Loans | (41,368) |
| Cash Flows from Investing Activities | |
| Interest | 3,269 |
| <i>Net Increase in Cash and Cash Equivalents</i> | 1,752,413 |
| <i>Cash and Cash Equivalents Beginning of Year</i> | (1,752,413) |
| <i>Cash and Cash Equivalents End of Year</i> | \$0 |
| Reconciliation of Operating Loss to Net Cash Used for Operating Activities | |
| <i>Operating Loss</i> | (\$4,676,138) |
| Adjustments | |
| Depreciation | 348,483 |
| Decrease in Accounts Receivable | 1,084,564 |
| Increase/(Decrease) in Liabilities: | |
| Accounts Payable | 41,384 |
| Contracts Payable | 2,097,581 |
| Accrued Wages | (24,166) |
| Compensated Absences Payable | (19,755) |
| Intergovernmental Payable | (1,370) |
| <i>Total Adjustments</i> | 3,526,721 |
| <i>Net Cash Used for Operating Activities</i> | (\$1,149,417) |

See accompanying notes to the general purpose financial statements

City of East Cleveland, Ohio
*Combined Statement of Revenues, Expenses and
Changes in Fund Equity - Budget (Non-GAAP Basis) and Actual
Proprietary Fund Type
For the Year Ended December 31, 2002*

| | Enterprise Funds | | | Variance Favorable (Unfavorable) |
|--|----------------------|--------------------|----------------------|--|
| | Original Budget | Final Budget | Actual | |
| Revenues | | | | |
| Charges for Services | \$8,989,144 | \$8,989,145 | \$8,288,672 | (\$700,473) |
| Interest | 20,000 | 20,000 | 3,269 | (16,731) |
| Other | 19,500 | 19,500 | 119,977 | 100,477 |
| <i>Total Revenues</i> | <u>9,028,644</u> | <u>9,028,645</u> | <u>8,411,918</u> | <u>(616,727)</u> |
| Expenses | | | | |
| Current: | | | | |
| Personal Services | 300,458 | 300,458 | 302,875 | (2,417) |
| Materials and Supplies | 289,842 | 289,842 | 247,869 | 41,973 |
| Contractual Services | 7,738,114 | 7,738,115 | 8,843,691 | (1,105,576) |
| Other | 168,053 | 168,053 | 163,631 | 4,422 |
| Capital Outlay | 41,868 | 41,868 | 0 | 41,868 |
| Debt Service: | | | | |
| Principal Retirement | 41,368 | 41,368 | 41,368 | 0 |
| <i>Total Expenses</i> | <u>8,579,703</u> | <u>8,579,704</u> | <u>9,599,434</u> | <u>(1,019,730)</u> |
| <i>Excess of Revenues Under (Over) Expenses</i> | 448,941 | 448,941 | (1,187,516) | (1,636,457) |
| Advances In | <u>200,000</u> | <u>400,000</u> | <u>500,000</u> | <u>100,000</u> |
| <i>Excess of Revenues Over (Under) Expenses and Advances</i> | 648,941 | 848,941 | (687,516) | (1,536,457) |
| <i>Fund Equity (Deficit) Beginning of Year</i> | (1,781,748) | (1,781,748) | (1,781,748) | 0 |
| Prior Year Encumbrances Appropriated | <u>29,335</u> | <u>29,335</u> | <u>29,335</u> | <u>0</u> |
| <i>Fund Equity (Deficit) End of Year</i> | <u>(\$1,103,472)</u> | <u>(\$903,472)</u> | <u>(\$2,439,929)</u> | <u>(\$1,536,457)</u> |

See accompanying notes to the general purpose financial statements

City of East Cleveland, Ohio
Notes To The General Purpose Financial Statements
For the Year Ended December 31, 2002

Note 1 - Reporting Entity and Basis of Presentation

A. Reporting Entity

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

The Mayor, elected by the voters for a four-year term, is the head of the municipal government for ceremonial, administrative, and executive purposes and presides at Council meetings. As the chief conservator of the peace, he oversees the enforcement of all laws and ordinances. He also appoints all department heads and executes all contracts, conveyances and evidences of indebtedness of the City.

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

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

A reporting entity is comprised of the primary government, component units and other organizations that are included to ensure that the financial statements are not misleading. The primary government of the City consists of all funds, agencies, departments and offices that are not legally separate from the City. For the City of East Cleveland this includes public safety (police and fire), highways and streets, culture and recreation, public improvements, community development (planning and zoning), public health, water and sanitation and general administrative and legislative services.

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

City of East Cleveland, Ohio
Notes To The General Purpose Financial Statements
For the Year Ended December 31, 2002

B. Basis of Presentation - Fund Accounting

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

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

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

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

General Fund This fund is the operating fund of the City and is used to account for all financial resources except those required to be accounted for in another fund. The general fund balance is available to the City for any purpose provided it is expended or transferred according to the general laws of Ohio.

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

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

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

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

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

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

City of East Cleveland, Ohio
Notes To The General Purpose Financial Statements
For the Year Ended December 31, 2002

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

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

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

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

Note 2 - Summary of Significant Accounting Policies

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

A. Measurement Focus and Basis of Accounting

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

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

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

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

City of East Cleveland, Ohio
Notes To The General Purpose Financial Statements
For the Year Ended December 31, 2002

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.

Non-exchange transactions, in which the City receives value without directly giving equal value in return, include income taxes, property taxes, grants, entitlements and donations. On an accrual basis, revenue from income taxes is recognized in the year in which the income is earned. Revenue from property taxes is recognized in the year for which the taxes are levied. (See Note 6) Revenue from grants, entitlements and donations is recognized in the year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the year when use is first permitted, matching requirements, in which the City must provide local resources to be used for a specified purpose, and expenditure requirements, in which the resources are provided to the City on a reimbursement basis. On a modified accrual basis, revenue from non-exchange transactions must also be available before it can be recognized.

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

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

Property taxes for which there is an enforceable legal claim as of December 31, 2002, but which were levied to finance year 2003 operations, have been recorded as deferred revenue. Grants and entitlements received before eligibility requirements are met are also recorded as deferred revenue. On the modified accrual basis, receivables that will not be collected within the available period have also been reported as deferred revenue.

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

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

B. Budgetary Data

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

City of East Cleveland, Ohio
Notes To The General Purpose Financial Statements
For the Year Ended December 31, 2002

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

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

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

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

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

C. Cash and Cash Equivalents

To improve cash management, cash received by the City is pooled. Monies for all funds, including proprietary funds, are maintained in this pool. Individual fund integrity is maintained through the City's records. Each fund's interest in the pool is presented as "equity in pooled cash and cash equivalents" on the balance sheet.

City of East Cleveland, Ohio
Notes To The General Purpose Financial Statements
For the Year Ended December 31, 2002

The general fund and the permanent improvement and transfer station capital project funds made advances to the older Americans, community development block grant, and special purpose grant special revenue funds and to the water and sewer enterprise funds to reduce the funds' negative cash balances. The water and sewer enterprise funds and the older Americans, community development, and special purpose grant special revenue funds have interfund payables for the amounts of the advances received from the general fund and the permanent improvement and transfer station capital project funds and the general fund and permanent improvement and transfer station capital project funds have an interfund receivable for the same amounts on the combined balance sheet.

During 2002, investments were limited to STAROhio and repurchase agreements. Repurchase agreements are reported at cost. STAROhio is an investment pool managed by the State Treasurer's Office which allows governments within the State to pool their funds for investment purposes. Nonparticipating investments such as repurchase agreements are reported at cost. STAROhio is not registered with the SEC as an investment company, but does operate in a manner consistent with Rule 2a7 of the Investment Company Act of 1940. Investments in STAROhio are valued at STAROhio's share price which is the price the investment could be sold for on December 31, 2002.

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

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

Interest revenue credited to the general fund during 2002 amounted to \$56,404, which includes \$56,206 assigned from other City funds.

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

D. Inventory

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

E. Interfund Assets and Liabilities

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

City of East Cleveland, Ohio
Notes To The General Purpose Financial Statements
For the Year Ended December 31, 2002

F. Fixed Assets and Depreciation

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

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

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

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

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

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

G. Accrued Liabilities and Long-Term Obligations

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

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

City of East Cleveland, Ohio
Notes To The General Purpose Financial Statements
For the Year Ended December 31, 2002

H. Compensated Absences

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

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

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

I. Contributed Capital

Contributed capital represents resources provided to the enterprise funds prior to 2001, from other funds, other governments and private sources that are not subject to repayment. Capital contributions received after 2000 are reported as revenue on the operating statement and included in retained earnings.

J. Fund Equity

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

K. Interfund Transactions

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

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

City of East Cleveland, Ohio
Notes To The General Purpose Financial Statements
For the Year Ended December 31, 2002

L. 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.

M. Total - Memorandum Only Columns

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

Note 3 - Budgetary Basis of Accounting

While reporting financial position, results of operations, and changes in fund balance/retained earnings on the basis of generally accepted accounting principles (GAAP basis), the budgetary basis as provided by law is based upon accounting for transactions on a basis of cash receipts, disbursements and encumbrances.

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

1. Revenues are recorded when received in cash (budget) as opposed to when susceptible to accrual (GAAP).
2. Expenditures/expenses are recorded when paid in cash (budget) as opposed to when the liability is incurred (GAAP).
3. Encumbrances are treated as expenditures for all funds (budget) rather than as a reservation of fund balance for governmental fund types (GAAP).
4. For the proprietary funds, the acquisition and construction of capital assets are reported on the operating statement (budget) rather than as balance sheet transactions (GAAP).
5. Investments are reported at cost (budget) rather than fair value (GAAP).

City of East Cleveland, Ohio
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The following tables summarize the adjustments necessary to reconcile the GAAP basis statements to the budgetary basis statements on a fund type basis:

| Excess of Revenues and Other Financing Sources Over (Under) Expenditures and Other Uses All Governmental Fund Types | | | | |
|---|-----------|--------------------|-----------------|---------------------|
| | General | Special Revenue | Debt Service | Capital Projects |
| GAAP Basis | \$516,527 | (\$1,409,468) | \$131 | (\$45,299) |
| Net Adjustment for Revenue Accruals | 25,728 | 691,037 | 0 | 0 |
| Advances In | 0 | 65,054 | 0 | 0 |
| Fair Value Adjustment for Investments - Beginning of Year | (5,225) | 0 | 0 | 0 |
| Fair Value Adjustment for Investments - End of Year | (5,064) | 0 | 0 | 0 |
| Net Adjustment for Expenditure Accruals | 343,225 | 181,236 | 0 | 3,804 |
| Advances Out | (565,054) | 0 | 0 | 0 |
| Encumbrances | (105,747) | (99,668) | 0 | (19,587) |
| Budget Basis | \$204,390 | (\$571,809) | \$131 | (\$61,082) |

| Net Income /Excess of Revenues Over (Under) Expenses Proprietary Fund Type | |
|--|---------------|
| | Enterprise |
| GAAP Basis | (\$4,672,869) |
| Net Adjustment for Revenue Accruals | 1,084,564 |
| Advances In | 500,000 |
| Net Adjustment for Expense Accruals | 2,093,674 |
| Depreciation Expense | 348,483 |
| Principal Retirement | (41,368) |
| Budget Basis | (\$687,516) |

City of East Cleveland, Ohio
Notes To The General Purpose Financial Statements
For the Year Ended December 31, 2002

Note 4 - Accountability and Compliance

A. Fund Deficits

The following funds had deficit fund balances as of December 31, 2002:

| Fund | Amount |
|-------------------------------|-------------|
| <i>Special Revenue Funds:</i> | |
| Older Americans | \$152,266 |
| Emergency Medical Services | 35,846 |
| Community Development | 437,590 |
| Special Purpose Grant | 66,312 |
| Computer Legalize Fees | 4,184 |
| Total Special Revenue Funds | 696,198 |
| Sewer Enterprise Fund | 1,906,712 |
| Total | \$2,602,910 |

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

The sewer enterprise fund deficit resulted from expenditures for contractual commitments exceeding revenues. During 2002, the City contracted with a private firm to operate the water and sewer departments which should significantly reduce the operating costs and eliminate the deficit balance.

B. Legal Compliance

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

| | |
|-----------------------------------|-----------|
| <i>Special Revenue Funds:</i> | |
| Older Americans | \$167,541 |
| Community Development Block Grant | 468,023 |
| Special Purpose Grant | 65,503 |
| Water Enterprise Fund | 695,084 |

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

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

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

| <u>Fund/Function</u> | <u>Appropriations</u> | <u>Expenditures Plus Encumbrances</u> | <u>Excess</u> |
|--------------------------|-----------------------|---|---------------|
| General Fund: | | | |
| Civil Service Department | \$5,445 | \$10,078 | \$4,633 |
| Special Revenue Funds: | | | |
| Older Americans | 366,207 | 588,450 | 222,243 |
| STEP Project | 6,128 | 23,617 | 17,489 |
| Capital Project Fund: | | | |
| Street Resurfacing | 246,761 | 656,694 | 409,933 |
| Enterprise Funds: | | | |
| Water | 4,457,862 | 5,270,717 | 812,855 |
| Sewer | 4,121,842 | 4,328,717 | 206,875 |

Contrary to Section 5705.39, Ohio Revised Code, the following funds had original appropriations in excess of original estimated resources plus carryover balance for the year 2002:

| | <u>Estimated Revenues Plus Carryover Balance</u> | <u>Appropriations</u> | <u>Excess</u> |
|--------------------------|--|-----------------------|---------------|
| Special Revenue Funds: | | | |
| Police Accrued Liability | \$135,515 | \$138,771 | \$3,256 |
| Older Americans | 414,965 | 863,598 | 448,633 |
| Recycling Grant | 0 | 3,179 | 3,179 |
| Norfolk Southern Award | 311,300 | 532,359 | 221,059 |
| Special Enforcement Unit | 291,452 | 336,185 | 44,733 |
| Community Development | 1,810,922 | 2,582,980 | 772,058 |
| Special Purpose Grant | 748,724 | 838,463 | 89,739 |
| Home Program | 669,568 | 1,079,398 | 409,830 |
| DARE Grant | 82,733 | 90,364 | 7,631 |
| Summer Day Camp | 15,830 | 30,000 | 14,170 |
| COPS Universal Grant | 8,806 | 11,405 | 2,599 |

City of East Cleveland, Ohio
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For the Year Ended December 31, 2002

| | Estimated Revenues Plus Carryover Balance | Appropriations | Excess |
|------------------------------------|---|----------------|-----------|
| Special Revenue Funds (continued): | | | |
| Block Grant 97 | \$0 | \$109,848 | \$109,848 |
| Superior Euclid Revolving Loan | 191,293 | 196,750 | 5,457 |
| Capital Project Fund: | | | |
| H. S. Brown Renovations | 2,320 | 2,621 | 301 |
| Enterprise Funds: | | | |
| Water | 4,171,675 | 4,429,931 | 258,256 |
| Sewer | 3,475,221 | 4,120,437 | 645,216 |

Contrary to Section 5705.39, Ohio Revised Code, the following funds had final appropriations in excess of final estimated resources plus carryover balance for the year 2002:

| | Estimated Revenues Plus Carryover Balance | Appropriations | Excess |
|--------------------------|---|----------------|-----------|
| Special Revenue Funds: | | | |
| Police Accrued Liability | \$135,515 | \$138,771 | \$3,256 |
| Special Enforcement Unit | 291,452 | 336,185 | 44,733 |
| Community Development | 188,836 | 1,500,477 | 1,311,641 |
| Special Purpose Grant | (45,885) | 748,724 | 794,609 |
| Home Program | 613,212 | 1,060,285 | 447,073 |
| DARE Grant | 46,733 | 82,732 | 35,999 |
| Block Grant 97 | 0 | 109,848 | 109,848 |
| Capital Projects Funds: | | | |
| H. S. Brown Renovations | 2,320 | 2,621 | 301 |
| Transfer Station | 561,677 | 689,876 | 128,199 |
| Enterprise Funds: | | | |
| Water | 4,171,675 | 4,457,862 | 286,187 |
| Sewer | 3,475,221 | 4,121,842 | 646,621 |

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Note 5 - Deposits and Investments

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

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

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

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

Protection of the City's deposits is provided by the Federal Deposit Insurance Corporation, by eligible securities pledged by the financial institution as security for repayment, by surety company bonds deposited with the treasurer by the financial institution or by a single collateral pool established by the financial institution to secure the repayment of all public monies deposited with the institution.

Interim monies may be invested in the following securities:

1. United States treasury notes, bills, bonds, or any other obligation or security issued by the United States treasury or any other obligation guaranteed as to principal and interest by the United States;
2. Bonds, notes, debentures, or any other obligations or securities issued by any federal government agency or instrumentality, including but not limited to, the federal national mortgage association, federal home loan bank, federal farm credit bank, federal home loan mortgage corporation, government national mortgage association, and student loan marketing association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;
3. Written repurchase agreements in the securities listed above provided that the market value of the securities subject to the repurchase agreement must exceed the principal value of the agreement by at least two percent and be marked to market daily, and that the term of the agreement must not exceed thirty days;
4. Bonds and other obligations of the State of Ohio;

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

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

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

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

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

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

Deposits At year-end, the carrying amount of the City's deposits was \$641,527 and the bank balance was \$1,498,914. Of the bank balance:

1. \$340,558 was covered by federal depository insurance.
2. \$1,158,356 was uncollateralized and uninsured. Although the securities were held by the pledging financial institutions trust department or agent in the City's name and all State statutory requirements for the investment of money had been followed, noncompliance with federal requirements could potentially subject the City to a successful claim by the FDIC.

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

| | Category 3 | Carrying and Fair Value |
|--|---------------|-------------------------------|
| Federal Home Loan Mortgage Corporation Notes | \$300,000 | \$305,064 |
| Repurchase Agreements | 294,348 | 294,348 |
| STAROhio | \$594,348 | 1,013,012 |
| | | \$1,612,424 |

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

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

| | Cash and Cash Equivalents/Deposits | Investments |
|--|---------------------------------------|-------------|
| GASB Statement No. 9 | \$2,253,951 | \$0 |
| Investments: | | |
| Repurchase Agreements | (294,348) | 294,348 |
| Federal Home Loan Mortgage Corporation Notes | (305,064) | 305,064 |
| STAROhio | (1,013,012) | 1,013,012 |
| GASB Statement No. 3 | \$641,527 | \$1,612,424 |

City of East Cleveland, Ohio
Notes To The General Purpose Financial Statements
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Note 6 - Taxes

A. Property Taxes

Property taxes include amounts levied against all real, public utility and tangible personal property located in the City. Property tax revenue received during 2002 for real and public property taxes represents collections of 2001 taxes. Property tax payments received during 2002 for tangible personal property (other than public utility property) are for 2002 taxes.

2002 real property taxes are levied after October 1, 2002, on the assessed value as of January 1, 2002, the lien date. Assessed values are established by State law at 35 percent of appraised market value. 2002 real property taxes are collected in and intended to finance 2003.

Public utility tangible personal property currently is assessed at varying percentages of true value; public utility real property is assessed at 35 percent of the true value. 2002 public utility property taxes which became a lien December 31, 2001, are levied after October 1, 2002, and are collected in 2003 with real property taxes.

2002 tangible personal property taxes are levied after October 1, 2001, on the values as of December 31, 2001. Collections are made in 2002. Tangible personal property assessments are 25 percent of true value for capital assets and 24 percent of true value for inventory.

The full tax rate for all City operations for the year ended December 31, 2002, was \$12.70 per \$1,000 of assessed value. The assessed values of real and tangible personal property upon which 2002 property tax receipts were based are as follows:

| | |
|-----------------------------|-----------------------------|
| Real Estate: | |
| Residential/Agricultural | \$116,006,250 |
| Other Real Estate | <u>49,650,230</u> |
| Total Real Estate | <u>165,656,480</u> |
| Tangible Personal Property: | |
| Public Utility | 11,640,150 |
| General Tangible Personal | <u>15,692,857</u> |
| Total Personal Property | <u>27,333,007</u> |
| Total Assessed Value | <u><u>\$192,989,487</u></u> |

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

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

City of East Cleveland, Ohio
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For the Year Ended December 31, 2002

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 which are measurable as of December 31, 2002, and for which there is an enforceable legal claim. Although total property tax collections for the next year are measurable, amounts to be received during the available period are not subject to reasonable estimation at December 31, nor are they intended to finance 2001 operations. The receivable is offset by deferred revenue.

B. Income Taxes

The City levies a municipal income tax of two percent on all salaries, wages, lottery winnings, commissions and other compensation, and net profits earned within the City as well as incomes of residents earned outside of the City.

Employers within the City are required to withhold income tax on employee compensation and remit the tax to the City either monthly or quarterly. Corporations and other individual taxpayers are required to pay their estimated tax quarterly and file a declaration annually. Income tax proceeds are credited in the general fund.

Note 7 - Fixed Assets

A summary of the enterprise funds' fixed assets at December 31, 2002 follows:

| | |
|-----------------------------------|---------------------------|
| Water Lines | \$8,370,468 |
| Machinery and Equipment | <u>235,687</u> |
| Total | 8,606,155 |
| Less: Accumulated Depreciation | <u>(2,126,462)</u> |
| Net Fixed Assets | <u><u>\$6,479,693</u></u> |

A summary of changes in general fixed assets during 2002 follows:

| | Fixed Assets | Additions | Deletions | Fixed Assets |
|----------------------------|---------------------|------------------|------------|---------------------|
| | <u>12/31/2001</u> | | | <u>12/31/2002</u> |
| Land | \$2,063,948 | \$0 | \$0 | \$2,063,948 |
| Buildings and Improvements | 3,170,325 | 433,877 | 0 | 3,604,202 |
| Machinery & Equipment | <u>5,562,442</u> | <u>437,273</u> | <u>0</u> | <u>5,999,715</u> |
| | <u>\$10,796,715</u> | <u>\$871,150</u> | <u>\$0</u> | <u>\$11,667,865</u> |

City of East Cleveland, Ohio
Notes To The General Purpose Financial Statements
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Note 8 - Receivables

Receivables at December 31, 2002 primarily consisted of taxes, accounts (billings for user charged services), intergovernmental receivables, entitlement or shared revenues and interest on investments. All receivables are considered fully collectible, except for aged utility receivables which equaled \$4,566,759.

The allowance for doubtful accounts was \$2,158,485 and the collectible aged accounts receivable was \$2,408,274. Enterprise funds accounts receivable consist of the following:

| Utilities | Water | Sewer | Total |
|---|-------------|-------------|-------------|
| Current Accounts Receivable | \$258,997 | \$254,267 | \$513,264 |
| Aged Accounts 12/31/02 | 1,180,054 | 1,228,220 | 2,408,274 |
| Enterprise Funds Accounts Receivable | \$1,439,051 | \$1,482,487 | \$2,921,538 |

A summary of the principal items of intergovernmental receivables follows:

| Intergovernmental Receivables | Amount |
|------------------------------------|-------------|
| General Fund: | |
| Liquor Permits | \$5,029 |
| Hotel/Motel Tax | \$820 |
| Homestead and Rollback | 120,583 |
| Local Government | 2,157,823 |
| <i>Total General Fund</i> | 2,284,255 |
| Special Revenue Funds: | |
| Street | 206,702 |
| Fire Pension | 3,582 |
| Police Pension | 3,582 |
| Older Americans | 114,319 |
| Home Program | 627,000 |
| CSX Award | 126,158 |
| Minority Health Grant | 2,444 |
| CDBG | 1,419,000 |
| Special Purpose (HUD) | 1,660,000 |
| DARE Grant | 16,932 |
| VOCA Grant | 7,909 |
| <i>Total Special Revenue Funds</i> | 4,187,628 |
| Capital Projects Fund: | |
| Permanent Improvement | 23,880 |
| <i>Total</i> | \$6,495,763 |

City of East Cleveland, Ohio
Notes To The General Purpose Financial Statements
For the Year Ended December 31, 2002

Note 9 - Contingencies

A. Litigation

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

B. Grants

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

Note 10 - Capital Leases

Capital lease obligations recorded in the general long-term obligations account group relate to a copier, computer equipment, telephone equipment, fire equipment and trucks which are leased under long-term agreements. These agreements meet the criteria of a capital lease as defined by Financial Accounting Standards Board Statement No. 13, "Accounting for Leases", which defines a capital lease generally as one which transfers benefits and risks of ownership to the lessee.

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

The equipment has been capitalized in the general fixed assets account group in the amount of \$823,733, the present value of the minimum lease payments at the inception of the lease. A corresponding liability was recorded in the general long-term obligations account group. The following is a schedule of the future minimum lease payments required under the capital leases and the present value of the minimum lease payments as of December 31, 2002.

| Year | Amount |
|---|-----------|
| 2003 | \$118,654 |
| 2004 | 103,808 |
| 2005 | 76,521 |
| 2006 | 76,521 |
| 2007 | 76,522 |
| 2008 - 2012 | 31,883 |
| Total minimum lease payments | 483,909 |
| Less: Amount representing interest | (75,401) |
| Present value of minimum lease payments | \$408,508 |

City of East Cleveland, Ohio
Notes To The General Purpose Financial Statements
For the Year Ended December 31, 2002

Note 11 - Long Term Obligations

Changes in the long-term obligations of the City during 2002 were as follows:

| | <u>Outstanding 12/31/2001</u> | <u>Additions</u> | <u>(Reductions)</u> | <u>Outstanding 12/31/2002</u> |
|---|-----------------------------------|------------------------|--------------------------|-----------------------------------|
| General Long-term Obligations: | | | | |
| Capital Leases | \$515,633 | \$0 | (\$107,125) | \$408,508 |
| Accounts Payable | 450,000 | 0 | (450,000) | 0 |
| Police and Fire Pension Liability | 1,660,737 | 0 | (23,090) | 1,637,647 |
| Compensated Absences | 1,745,138 | 257,209 | (102,984) | 1,899,363 |
| Intergovernmental Payable | <u>619,904</u> | <u>1,279,782</u> | <u>(619,904)</u> | <u>1,279,782</u> |
| Total General Long-Term Obligations | 4,991,412 | 1,536,991 | (1,303,103) | 5,225,300 |
| Enterprise Fund Obligations | | | | |
| OPWC Loans 0% | <u>575,683</u> | <u>0</u> | <u>(41,368)</u> | <u>534,315</u> |
| Total | <u>\$5,567,095</u> | <u>\$1,536,991</u> | <u>(\$1,344,471)</u> | <u>\$5,759,615</u> |

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

The City's overall legal debt margin was \$17,612,207 at December 31, 2002. Principal and interest requirements to retire long-term obligations outstanding at December 31, 2002 are as follows:

City of East Cleveland, Ohio
Notes To The General Purpose Financial Statements
For the Year Ended December 31, 2002

| | OPWC Loans | Police and Fire Liability |
|---------------|------------------|------------------------------|
| 2003 | \$41,368 | \$93,596 |
| 2004 | 41,368 | 93,596 |
| 2005 | 41,368 | 93,596 |
| 2006 | 41,369 | 93,596 |
| 2007 | 41,369 | 93,596 |
| 2008-2012 | 206,842 | 467,982 |
| 2013-2017 | 108,843 | 467,982 |
| 2018-2022 | 11,788 | 467,982 |
| 2023-2035 | 0 | 1,165,805 |
| Total | 534,315 | 3,037,731 |
| Less Interest | 0 | (1,400,084) |
| Principal | <u>\$534,315</u> | <u>\$1,637,647</u> |

Note 12 - Defined Benefit Pension Plans

A. Ohio Public Employees Retirement System

All full-time employees, other than non-administrative full-time police officers and firefighters, participate in the Ohio Public Employees Retirement System (OPERS), a cost-sharing multiple-employer public employee retirement system administered by the Public Employees Retirement Board. OPERS provides basic retirement and disability benefits, annual cost of living adjustments, and death benefits to plan members and beneficiaries. The authority to establish and amend benefits is provided by Chapter 145 of the Ohio Revised Code. OPERS issues a stand-alone financial report which may be obtained by writing to the Ohio Public Employees Retirement System, 277 East Town Street, Columbus, Ohio 43215-4642.

Plan members are required to contribute 8.5 percent of their annual covered salary to fund pension obligations. The 2002 employer pension contribution rate for the City was 8.55 percent of covered payroll, decreased from 9.25 percent in 2001. Contributions are authorized by State statute. The City's required contributions to OPERS for the years ended December 31, 2002, 2001 and 2000 were \$474,732, \$406,837, and \$254,119 respectively. The full amount has been contributed for 2000 and 2001. 67.11 percent has been contributed for 2002 with the remainder being reported in the general long-term obligations account group.

B. Ohio Police and Fire Pension Fund

The City contributes to the Ohio Police and Fire Pension Fund (OP&F), a cost-sharing multiple employer public employee retirement system administered by the OP&F's Board of Trustees. OP&F provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Benefit provisions are established by the Ohio State Legislature and are codified in Chapter 742 of the Ohio Revised Code. The OP&F issues a publicly available financial report that

City of East Cleveland, Ohio
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For the Year Ended December 31, 2002

includes financial information and required supplementary information. That report may be obtained by writing to the Ohio Police and Fire Pension Fund, 140 East Town Street, Columbus, Ohio 43215-5164.

Police and firefighters are required to contribute 10 percent of their annual covered salary to fund pension obligations and the City is required to contribute 11.75 percent for police and 16.25 percent for firefighters. For 2001, the City contributions were 12 percent for police and 16.5 percent for firefighters. Contributions are authorized by State statute. The City's contributions to the OP&F for police and firefighters were \$310,683 and \$404,202 for the year ended December 31, 2002, \$315,178 and \$433,370 for the year ended December 31, 2001 and \$268,090 and \$461,599 for the year ended December 31, 2000. The full amount has been contributed for 2000 and 2001. 72.33 and 79.03 percent, respectively, have been contributed for 2002 with the remainder being reported in the general long-term obligations account group.

In addition to current contributions, the City pays installments on the accrued liability incurred when the State of Ohio established the statewide pension system for police and fire fighters in 1967. As of December 31, 2002 the unfunded liability of the City was \$1,637,647 payable in semiannual payments through the year 2035. This is an accounting liability of the City which will not vary. The liability is reported in the general long-term obligations account group.

Note 13 – Other Employee Benefits

A. Compensated Absences

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

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

As of December 31, 2002, the liability for unpaid compensated absences was \$1,924,781 for the entire City.

B. Health Care Benefits

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

City of East Cleveland, Ohio
Notes To The General Purpose Financial Statements
For the Year Ended December 31, 2002

Life insurance is offered to employees through Business Men's Life Insurance Company. Police receive \$20,000 coverage for \$4.80 per month; firemen receive \$30,000 coverage for \$7.20 per month. For police and fire, the City pays half the monthly premium and the employee pays the other half. All other City employees pay \$.40 per \$1,000 of their annual salary per month up to a maximum of \$60,000.

Note 14 – Postemployment Benefits

A. Ohio Public Employees Retirement System

The Ohio Public Employees Retirement System of Ohio (OPERS) provides postretirement health care coverage to age and service retirees with ten or more years of qualifying Ohio service credit. Health care coverage for disability recipients and primary survivor recipients is available. The health care coverage provided by the retirement system is considered an Other Postemployment Benefit as described in GASB Statement No. 12. A portion of each employer's contribution to OPERS is set aside for the funding of postretirement health care based on authority granted by State statute. The 2002 employer contribution rate was 13.55 percent of covered payroll; 5.00 percent was the portion that was used to fund health care for 2002. For 2001, the contribution rate was 13.55 percent of covered payroll; 4.30 percent was the portion that was used to fund health care.

Benefits are advance-funded using the entry age normal cost method. Significant actuarial assumptions, based on OPERS's latest actuarial review performed as of December 31, 2001, include a rate of return on investments of 8.0 percent, an annual increase in active employee total payroll of 4.0 percent compounded annually (assuming no change in the number of active employees) and an additional increase in total payroll of between .5 percent and 6.3 percent based on additional annual pay increases. Health care premiums were assumed to increase 4.0 percent annually.

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

The number of active contributing participants was 402,041. The City's actual contributions for 2002 which were used to fund postemployment benefits were \$277,621. The actual contribution and the actuarially required contribution amounts are the same. OPERS's net assets available for payment of benefits at December 31, 2001, (the latest information available) were \$11.6 billion. The actuarially accrued liability and the unfunded actuarial accrued liability were \$16.4 billion and \$4.8 billion, respectively.

B. Ohio Police and Fire Pension Fund

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

City of East Cleveland, Ohio
Notes To The General Purpose Financial Statements
For the Year Ended December 31, 2002

The health care coverage provided by the retirement system is considered an Other Postemployment Benefit (OPEB) as described in GASB Statement No. 12. The Ohio Revised Code provides the authority allowing the Ohio Police and Fire Pension Fund's board of trustees to provide health care coverage and states that health care costs paid from the Ohio Police and Fire Pension Fund shall be included in the employer's contribution rate. Health care funding and accounting is on a pay-as-you-go basis. The total police employer contribution is 19.5 percent of covered payroll and the total firefighter employer contribution rate is 24 percent of covered payroll, of which 7.75 percent of covered payroll was applied to the postemployment health care program during 2002. For 2001, the percent used to fund healthcare was 7.5 percent. In addition, since July 1, 1992, most retirees have been required to contribute a portion of the cost of their health care coverage through a deduction from their monthly benefit payment.

The City's actual contributions for 2002 that were used to fund postemployment benefits were \$204,918 for police and \$192,773 for fire. The OP&F's total health care expenses for the year ended December 31, 2001, (the latest information available) were \$122,298,771 which was net of member contributions of \$6,874,699. The number of OP&F participants eligible to receive health care benefits as of December 31, 2001, (the latest information available) was 13,174 for police and 10,239 for firefighters.

Note 15 - Segment Information for Enterprise Funds

The City maintains two enterprise funds to account for sewer and water operations. Segment information for these operations for the year ended December 31, 2002 is as follows:

| | <u>Water</u> | <u>Sewer</u> | <u>Total</u> |
|-----------------------|--------------|--------------|--------------|
| Operating Revenues | \$4,467,683 | \$2,856,402 | \$7,324,085 |
| Depreciation Expense | 347,763 | 720 | 348,483 |
| Operating Loss | (2,122,782) | (2,553,356) | (4,676,138) |
| Interest | 1,602 | 1,667 | 3,269 |
| Net Loss | (2,121,180) | (2,551,689) | (4,672,869) |
| Net Working Capital | (852,440) | (1,907,710) | (2,760,150) |
| Total Assets | 8,025,774 | 1,483,485 | 9,401,231 |
| Long-Term Liabilities | 492,947 | 0 | 534,315 |
| Total Equity | 5,091,940 | (1,906,712) | 3,185,228 |

City of East Cleveland, Ohio
Notes To The General Purpose Financial Statements
For the Year Ended December 31, 2002

Note 16 - Interfund Transactions

Interfund balances at December 31, 2002, consist of the following interfund receivables and payables:

| | Receivable | Payable |
|------------------------------|-------------|-------------|
| General Fund | \$2,781,890 | \$0 |
| Special Revenue Funds | | |
| Police Liability | 0 | 6,956 |
| Fire Liability | 0 | 6,956 |
| Older Americans | 0 | 232,595 |
| Community Development | 0 | 468,023 |
| Special Purpose Grant | 0 | 65,503 |
| Norfolk Southern Award | 295,158 | 0 |
| Firststar CSX Program | 25,092 | 0 |
| <i>Total Special Revenue</i> | 320,250 | 780,033 |
| Capital Project Funds | | |
| Permanent Improvement | 321,614 | 46,374 |
| Transfer Station | 342,582 | 0 |
| <i>Total Capital Project</i> | 664,196 | 46,374 |
| Enterprise Funds | | |
| Water | 0 | 945,084 |
| Sewer | 0 | 1,994,845 |
| <i>Total Enterprise</i> | 0 | 2,939,929 |
| Totals | \$3,766,336 | \$3,766,336 |

Note 17 - Risk Management

The City of East Cleveland is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During 2002, the City contracted with Love Insurance Partners for blanket building, business personal property and general liability with \$18,061,993 as coverage.

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 liability insurance for vehicle lawsuits in the general fund. There were no outstanding claims at December 31, 2002 and no change in the claims liability amount for 2000 through 2002.

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.

City of East Cleveland, Ohio
Notes To The General Purpose Financial Statements
For the Year Ended December 31, 2002

The health insurance claims liability was zero at December 31, 2002. For 2001, the City ceased to be self-insured; however, the City was still liable for run-off claims in 2002. Changes in the funds' claims liability amount in 2001 and 2002 were:

| | Balance at Beginning of Year | Current Year Claims | Claim Payments | Balance at End of Year |
|------|------------------------------------|---------------------------|-------------------|------------------------------|
| 2001 | \$124,271 | \$32,220 | \$150,556 | \$5,935 |
| 2002 | 5,935 | 0 | 5,935 | 0 |

Note 18 – Operations Management International

In order to eliminate the annual net loss in the water and sewer funds, the City contracted with Operations Management International (OMI). During 2002, OMI replaced the billing system used by the water and sewer department. The replacement was necessary in order to insure that every account is billed properly. All properties within the City were identified and their occupational status was verified. OMI also replaced over 40 large meters and completed all hydrant repairs that had been identified by a leak detection study. The repairs reduced the amount of water purchased by the City.

Note 19 – Special Audit Report

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

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

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

City of East Cleveland, Ohio
Notes To The General Purpose Financial Statements
For the Year Ended December 31, 2002

Note 20 – Subsequent Event

The City of East Cleveland's financial plan expired on December 31, 2002 and the City has not revised it or adopted a new one. On June 2, 2003, the Financial Planning and Supervision Commission reduced the expenditures of the general fund so that in any month they may not exceed 85% of expenditures from the general fund for such month in the preceding fiscal year until such time as a financial plan has been submitted to the Financial Planning and Supervision Commission.

On August 30, 2004, Emmanuel Onunwor, the former Mayor of the City, was convicted in U. S. District Court on 22 counts, including extortion, racketeering, mail fraud and tax fraud. The Mayor received kickbacks from contractors who did business with the City. Mr. Onunwor was the Mayor of the City from 1997 to 2004.

**CITY OF EAST CLEVELAND
CUYAHOGA COUNTY
SCHEDULE OF FEDERAL AWARDS RECEIPTS AND EXPENDITURES
FOR THE YEAR ENDED DECEMBER 31, 2002**

| Federal Grantor/ Pass-Through Grantor/ Program Title | Project/Grant Number | CFDA Number | Receipts | Expenditures |
|---|----------------------|----------------|--------------------|--------------------|
| <u>U.S. Department of Housing and Urban Development</u> | | | | |
| <i>Direct Programs:</i> | | | | |
| Community Development Block Grant/Entitlement Grant | NA | 14.218 | <u>\$960,894</u> | <u>\$967,304</u> |
| HOME Investment Partnerships Program | NA | 14.239 | <u>572,644</u> | <u>590,468</u> |
| <i>Passed Through the Ohio Department of Development:</i> | | | | |
| Special Purpose Grant | OH12SPG507 | 14.xxx | <u>90,000</u> | <u>0</u> |
| Total Ohio Department of Development | | | <u>90,000</u> | <u>0</u> |
| Total U.S. Department of Housing and Urban Development | | | <u>1,623,538</u> | <u>1,557,772</u> |
| <u>U.S. Department of Health and Human Services</u> | | | | |
| <i>Passed Through the Western Reserve Area Agency on Aging:</i> | | | | |
| Aging Cluster: | | | | |
| Title III, Part B_Grants for Supportive Services and Senior Centers | NA | 93.044 | <u>180,986</u> | <u>180,986</u> |
| Title III, Part C_Nutrition 02 | NA | 93.045 | <u>37,262</u> | <u>37,262</u> |
| Total Aging Cluster | | | <u>218,248</u> | <u>218,248</u> |
| Total U.S. Department of Health and Human Services | | | <u>218,248</u> | <u>218,248</u> |
| <u>U.S. Department of Justice</u> | | | | |
| <i>Passed Through the Ohio Attorney General's Office:</i> | | | | |
| Crime Victim Assistance (V.O.C.A.) | 2001LBX3362 | 16.575 | 109,848 | 80,865 |
| Crime Victim Assistance (V.O.C.A.) | 18-176 | 16.575 | <u>48,251</u> | <u>48,251</u> |
| Total U.S. Department of Justice | | | <u>158,099</u> | <u>129,116</u> |
| TOTAL FEDERAL ASSISTANCE | | | <u>\$1,999,885</u> | <u>\$1,905,136</u> |

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

**CITY OF EAST CLEVELAND
CUYAHOGA COUNTY**

**NOTES TO SCHEDULE OF FEDERAL AWARDS EXPENDITURES
FOR THE YEAR ENDED DECEMBER 31, 2002**

NOTE A - SIGNIFICANT ACCOUNTING POLICIES

The accompanying Federal Awards Receipts and Expenditures Schedule (the Schedule) summarizes activity of the City's federal award programs. The schedule has been prepared on the cash basis of accounting.

NOTE B - MATCHING REQUIREMENTS

Certain Federal programs require that the City contribute non-Federal funds (matching funds) to support the Federally-funded programs. The City has complied with the matching requirements. The expenditure of non-Federal matching funds is not included on the Schedule.

NOTE C – REVOLVING LOAN

The City is maintaining a cash balance of approximately \$25,000 from revolving loan monies distributed through the Department of Commerce (11.307). The value of loans outstanding is not determinable. There has been no activity involving this program since 1993 and the collection of the outstanding loan balances is questionable. Disposition of this program is being discussed with the Department of Commerce.



**Auditor of State
Betty Montgomery**

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

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

We have audited the financial statements of the City of East Cleveland, Cuyahoga County, Ohio, (the City), as of and for the year ended December 31, 2002, and have issued our report thereon dated December 22, 2005, which was qualified since certain information relating to Enterprise Fund Type – Charges for Services revenue billed was not available to be audited. 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 to determine our auditing procedures in order to express our opinion on the financial statements and not to opine on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the City's ability to record, process, summarize, and report financial data consistent with management's assertions in the financial statements. Reportable conditions are described in the accompanying schedule of findings as items 2002-001 through 2002-003.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts material to the financial statements we audited may occur and not be timely detected by employees when performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered material weaknesses. We consider reportable conditions 2002-001 through 2002-003 listed above to be material weaknesses. In a separate letter to the City's management dated December 22, 2005, we reported other matters involving internal control over financial reporting which we did not deem reportable conditions.

Compliance and Other Matters

As part of reasonably assuring whether the City's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could directly and materially affect the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express an opinion. The results of our tests disclosed instances of noncompliance or other matters that we must report under *Government Auditing Standards* which are described in the accompanying schedule of findings as items 2002-004 through 2002-014. In a separate letter to the City's management dated December 22, 2005, we reported other matters related to noncompliance we deemed immaterial.

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.



Betty Montgomery
Auditor of State

December 22, 2005



Auditor of State Betty Montgomery

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

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

Compliance

We have audited the compliance of the City of East Cleveland, Cuyahoga County, Ohio, (the City) with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133, Compliance Supplement* that apply to each of its major federal programs for the year ended December 31, 2002. The City's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the City's management. Our responsibility is to express an opinion on the City's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to reasonably assure whether noncompliance occurred with the types of 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 that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the City's compliance with those requirements.

As described in items 2002-015 to 2002-018 in the accompanying schedule of findings, the City did not comply with requirements regarding allowable costs/cost principles, procurement, cash management and sub-recipient monitoring that are applicable to its Community Development Block Grant and HOME programs. Compliance with those requirements is necessary, in our opinion, for the City to comply with requirements applicable to those programs.

In our opinion, except for the noncompliance described in the preceding paragraph, the City complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended December 31, 2002. In a separate letter to the City's management dated December 22, 2005, we reported other matters related to federal noncompliance not requiring inclusion in this report.

Internal Control Over Compliance

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

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts and grants caused by error or fraud that would be material in relation to a major federal program being audited may occur and not be timely detected by employees when performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses. We noted other matters involving the internal control over federal compliance that do not require inclusion in this report, that we have reported to management of the City in a separate letter dated December 22, 2005.

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.



Betty Montgomery
Auditor of State

December 22, 2005

**CITY OF EAST CLEVELAND
CUYAHOGA COUNTY
SCHEDULE OF FINDINGS
DECEMBER 31, 2002**

1. SUMMARY OF AUDITOR'S RESULTS

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

**CITY OF EAST CLEVELAND
CUYAHOGA COUNTY
SCHEDULE OF FINDINGS
DECEMBER 31, 2002
(Continued)**

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

The comments appearing with an asterisk (*) denotes a comment that was previously reported to management in the 2001 audit report for which corrective action has not been taken.

| | |
|----------------|----------|
| Finding Number | 2002-001 |
|----------------|----------|

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

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

The City did not establish procedures to determine whether the service organization had sufficient controls in place and operating effectively to reduce the risk that these services have not been accurately and completely processed in accordance with the City’s contract. The processing of water and sewer billings recorded as charges for services represent 98% of the revenues for the Enterprise Fund Type.

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

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

| | |
|----------------|----------|
| Finding Number | 2002-002 |
|----------------|----------|

The City of Cleveland is the primary provider of water and sewer to the City and charges \$19.63 and \$21.28 per MCF for water and sewer. A review of water and sewer billings from the City of Cleveland to the City of East Cleveland disclosed the City paid for approximately 58,000,000 gallons that were not billed to its consumers. The cost of the unbilled water and sewer to the City was \$1,132,319 for water and \$1,227,496 for sewer totaling \$2,359,815. This cost is a direct expenditure to the enterprise funds which are not off-set by any revenues. Had the City billed these unbilled gallons at their normal rates of \$40.63 for water and \$39.90 for sewer they would have generated additional revenues of \$2,343,664 and \$2,301,556 for a total of \$4,645,220. The City’s enterprise fund type had total operating revenues of only \$7,324,085 and an operating loss of \$4,676,138 for the year ended December 31, 2002. The unbilled revenues were a significant factor in the operating loss incurred by the City.

**CITY OF EAST CLEVELAND
 CUYAHOGA COUNTY
 SCHEDULE OF FINDINGS
 DECEMBER 31, 2002
 (Continued)**

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

(Continued)

| | |
|----------------|----------|
| Finding Number | 2002-002 |
|----------------|----------|

(Continued)

As the above data discloses, there is a significant loss of accountability over what the City is being billed and what they are billing its customers. The City is aware that it has been losing water through its infrastructure for several years as reported in the several leak study reports issued on this matter. The City does not adequately monitor usage and billings to determine the factors which are attributable to the significant amounts of unbilled water and sewer usage.

We recommend the City aggressively detect and repair any water and sewer leakage and investigate the reasons for the unbilled usage.

| | |
|----------------|------------|
| Finding Number | 2002-003 * |
|----------------|------------|

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

During a control test of 60 payroll expenditures, we noted the following weaknesses which may result in employees not being properly compensated:

- 43% of the time cards could not be located.
- 18% of the time cards were not signed by the employee.
- 33% of the time cards were not signed by the department head indicating approval of the hours charged.
- For 17% of the time cards tested, the payroll administrator did not make a notation on the timecard indicating the hours charged were mathematically correct and properly entered into the system.
- For 17% of the payroll authorization forms tested, the department head or designated employee did not sign the form.

We recommend the City adhere to its control procedures for processing payroll. This would include the review and approval of employee hours, by the supervisor and by the payroll administrator.

**CITY OF EAST CLEVELAND
 CUYAHOGA COUNTY
 SCHEDULE OF FINDINGS
 DECEMBER 31, 2002
 (Continued)**

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

(Continued)

| | |
|----------------|------------|
| Finding Number | 2002-004 * |
|----------------|------------|

Ohio Rev. Code Section 5705.10 provides, in part, that money paid into any fund shall be used only for the purposes for which such fund is established. As of December 31, 2002, the following funds had significant negative cash fund balances:

| | |
|-----------------------------------|-----------|
| Special Revenue Funds: | |
| Older Americans | \$167,541 |
| Community Development Block Grant | 468,023 |
| Special Purpose Grant | 65,503 |

These deficit balances indicate that money from other funds was used to pay expenditures for the above funds contrary to Ohio Rev. Code Section 5705.10.

We recommend the City monitor the drawdown of grant funds to ensure that deficits do not occur.

| | |
|----------------|------------|
| Finding Number | 2002-005 * |
|----------------|------------|

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

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

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

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

**CITY OF EAST CLEVELAND
CUYAHOGA COUNTY
SCHEDULE OF FINDINGS
DECEMBER 31, 2002
(Continued)**

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

| | |
|----------------|------------|
| Finding Number | 2002-005 * |
|----------------|------------|

(Continued)

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

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

One of the primary factors in the City's continued fiscal emergency status is the City's inability to make the water and sewer funds self-supporting as required by the plan. The City's general fund continues to subsidize the water and sewer funds and the operating losses continue.

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

A comparison of the plan's 2002 water and sewer fund projected cash receipts and expenditures with the actual results is as follows:

| | <u>Projection</u> | <u>Actual</u> | <u>Difference From Projection</u> | |
|----------------------------------|-------------------|----------------------|-----------------------------------|-------------------|
| | | | <u>Amount</u> | <u>Percentage</u> |
| Cash Receipts | \$8,022,265 | \$8,411,918 | \$389,653 | 5% |
| Cash Expenditures | <u>7,291,256</u> | <u>9,599,434</u> | <u>(2,308,178)</u> | <u>34%</u> |
| Operating Cash Surplus (Deficit) | <u>\$731,009</u> | <u>(\$1,187,516)</u> | <u>(\$1,918,525)</u> | <u>-138%</u> |

As the table illustrates, the actual amounts differed enough from the projected amounts that the City's projected operating surplus was in actuality a significant deficit at year end.

It also states "The financial Plan adopted a policy which requires these funds be self-supporting for operating purposes and General Fund subsidies eliminated. This policy will require that the fees charged for utility services be adjusted from time to time to provide for increasing operating and maintenance expenses. Accounting procedures are also required to account for the financial operations of the enterprise according to acceptable accounting principles. The city is committed to the adoption of a balanced Water and Sewer Fund budget in each year of the financial plan and thereafter."

**CITY OF EAST CLEVELAND
CUYAHOGA COUNTY
SCHEDULE OF FINDINGS
DECEMBER 31, 2002
(Continued)**

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|---|
| 2. FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS |
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(Continued)

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|----------------|------------|
| Finding Number | 2002-005 * |
|----------------|------------|

(Continued)

A review of the GAAP financial statements for the life of the plan disclosed that operating losses totaled (\$8,924,003) and that transfers from the general fund to the water and sewer funds totaled \$2,647,912. For the year ended December 31, 2002 the operating loss totaled (\$4,676,138).

As a result, the plan that is supposed to be designed to result in recovery is not being followed nor is it being updated to reflect the current economic situation. This is contrary to Section 118.06(A)(3) and is a significant factor in the City's continued fiscal emergency status.

We recommend the financial plan be reviewed and updated on a regular basis when there are changes in the assumptions and actual results.

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|----------------|------------|
| Finding Number | 2002-006 * |
|----------------|------------|

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

The following fund/functions had expenditures plus encumbrances in excess of final appropriations:

| <u>Fund/Function</u> | <u>Final Appropriations</u> | <u>Expenditures Plus Encumbrances</u> | <u>Excess</u> |
|--------------------------|---------------------------------|---|---------------|
| General Fund: | | | |
| Civil Service Department | \$5,445 | \$10,078 | \$4,633 |
| Special Revenue Funds: | | | |
| Older Americans | 366,207 | 588,450 | 222,243 |
| STEP Project | 6,128 | 23,617 | 17,489 |
| Capital Project Fund: | | | |
| Street Resurfacing | 246,761 | 656,694 | 409,933 |
| Enterprise Funds: | | | |
| Water | 4,457,862 | 5,270,717 | 812,855 |
| Sewer | 4,121,842 | 4,328,717 | 206,875 |

We recommend that expenditures plus encumbrances be compared with appropriations on a regular basis and amended accordingly.

**CITY OF EAST CLEVELAND
 CUYAHOGA COUNTY
 SCHEDULE OF FINDINGS
 DECEMBER 31, 2002
 (Continued)**

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| 2. FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS |
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(Continued)

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|----------------|------------|
| Finding Number | 2002-007 * |
|----------------|------------|

Ohio Rev. 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 that 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.

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 that the contract or order was made ("then"), and at the time that 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 \$1,000 (\$3,000 after April 7, 2003) may be paid by the fiscal officer without a resolution or ordinance upon completion of the "then and now" certificate, provided that the expenditure is otherwise lawful. This does not eliminate any otherwise applicable requirement for approval of expenditures by the City.

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. (Prior to September 26, 2003, blanket certificates were limited to \$5,000 and three months.) 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.

Twelve of the sixty transactions tested (20%) were not certified by the fiscal officer at the time the commitment was incurred and there was no evidence the City followed the aforementioned exceptions. 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
DECEMBER 31, 2002
(Continued)**

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

(Continued)

| | |
|----------------|------------|
| Finding Number | 2002-007 * |
|----------------|------------|

(Continued)

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. To improve controls over disbursements and to help reduce the possibility of the City's funds exceeding budgetary spending limitations, we recommend the Finance Director 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.

We recommend the City certify purchases to which section 5705.41(D) applies. The most convenient certification method is to use purchase orders that include the certification language 5705.41(D) requires to authorize disbursements. The fiscal officer should sign the certification at the time the City incurs a commitment, and only when the requirements of 5705.41(D) are satisfied. The fiscal officer should post approved purchase commitments to the proper appropriation code, to reduce the available appropriation.

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|----------------|------------|
| Finding Number | 2002-008 * |
|----------------|------------|

Ohio Rev. Code Section 5705.39 provides, in part, that total appropriations from each fund should not exceed the total estimated revenue. The following funds had original appropriations in excess of original estimated resources plus carryover balance:

| | Estimated Resources Plus Carryover Balance | Original Appropriations | Excess |
|--------------------------------|---|----------------------------|---------|
| Special Revenue Funds: | | | |
| Police Accrued Liability | \$135,515 | \$138,771 | \$3,256 |
| Older Americans | 414,965 | 863,598 | 448,633 |
| Recycling Grant | 0 | 3,179 | 3,179 |
| Norfolk Southern Award | 311,300 | 532,359 | 221,059 |
| Special Enforcement Unit | 291,452 | 336,185 | 44,733 |
| Community Development | 1,810,922 | 2,582,980 | 772,058 |
| Special Purpose Grant | 748,724 | 838,463 | 89,739 |
| Home Program | 669,568 | 1,079,398 | 409,830 |
| DARE Grant | 82,733 | 90,364 | 7,631 |
| Summer Day Camp | 15,830 | 30,000 | 14,170 |
| COPS Universal Grant | 8,806 | 11,405 | 2,599 |
| Block Grant 97 | 0 | 109,848 | 109,848 |
| Superior Euclid Revolving Loan | 191,293 | 196,750 | 5,457 |
| Capital Project Fund: | | | |
| H. S. Brown Renovations | 2,320 | 2,621 | 301 |
| Enterprise Funds: | | | |
| Water | 4,171,675 | 4,457,862 | 286,187 |
| Sewer | 3,475,221 | 4,121,842 | 646,621 |

**CITY OF EAST CLEVELAND
CUYAHOGA COUNTY
SCHEDULE OF FINDINGS
DECEMBER 31, 2002
(Continued)**

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

(Continued)

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|----------------|------------|
| Finding Number | 2002-008 * |
|----------------|------------|

The following funds had final appropriations in excess of final estimated resources plus carryover balance for the year 2002:

| | <u>Estimated Resources Plus Carryover Balance</u> | <u>Final Appropriations</u> | <u>Excess</u> |
|--------------------------------|---|---------------------------------|---------------|
| Special Revenue Funds: | | | |
| Police Accrued Liability | \$135,515 | \$138,771 | \$3,256 |
| Special Enforcement Unit | 291,452 | 336,185 | 44,733 |
| Community Development | 188,836 | 1,500,477 | 1,311,641 |
| Special Purpose Grant | (45,885) | 748,724 | 794,609 |
| Home Program | 613,212 | 1,060,285 | 447,073 |
| DARE Grant | 46,733 | 82,732 | 35,999 |
| Block Grant 97 | 0 | 109,848 | 109,848 |
| Capital Projects Funds: | | | |
| H. S. Brown Renovations | 2,320 | 2,621 | 301 |
| Transfer Station | 561,677 | 689,876 | 128,199 |
| Enterprise Funds: | | | |
| Water | 4,171,675 | 4,457,862 | 286,187 |
| Sewer | 3,475,221 | 4,121,892 | 646,621 |

We recommend that estimated revenues plus carryover balance be compared with appropriations on a regular basis and adjustments be made accordingly.

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|----------------|----------|
| Finding Number | 2002-009 |
|----------------|----------|

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

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

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

**CITY OF EAST CLEVELAND
 CUYAHOGA COUNTY
 SCHEDULE OF FINDINGS
 DECEMBER 31, 2002
 (Continued)**

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| 2. FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS |
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(Continued)

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|----------------|------------|
| Finding Number | 2002-010 * |
|----------------|------------|

Ohio Rev. Code Section 1901.14(A)(4) provides that a municipal court is required to submit an annual report of its activities to the legislative authority of the municipality and to the board of county commissioners on or before the last day of March of each year, for the previous year.

The Municipal Court did not submit the 2001 annual report to the board of county commissioners and City Council, as required.

We recommend the Municipal Court submit their annual report of activities to the required entities in the time frame required.

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|----------------|------------|
| Finding Number | 2002-011 * |
|----------------|------------|

Ohio Rev. Code Section 1901.31(G) requires on the first Monday in January of each year, the clerk of court prepare a list of all cases that were finally determined more than one year in the past in which there remains in the clerk's possession unclaimed monies not consumed by costs in the case. The clerk is required to give notice of the unclaimed monies to the entitled parties or their attorneys. Monies remaining unclaimed by April 1st of each year are to be paid by the clerk to the City Treasury.

The required list of unclaimed funds was not prepared by the Clerk of Court for 2001 and the funds were not paid by the Clerk to the City Treasury, as required. In fact, as of December 31, 2002, \$253,801 in outstanding bail bond accounts were over one year old and the Municipal Court has not paid any unclaimed money to the City since 1999.

We recommend the Clerk of Court prepare the required list of unclaimed monies in the time frame required, give the required notice and pay the remaining unclaimed monies to the City's Treasury when required.

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|----------------|------------|
| Finding Number | 2002-012 * |
|----------------|------------|

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

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

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

**CITY OF EAST CLEVELAND
 CUYAHOGA COUNTY
 SCHEDULE OF FINDINGS
 DECEMBER 31, 2002
 (Continued)**

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|--|
| 2. FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS |
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(Continued)

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|----------------|------------|
| Finding Number | 2002-013 * |
|----------------|------------|

Ohio Rev. Code Section 9.38 provides in part, that any public official other than a state officer, employee or agent who receives public moneys shall deposit said moneys with the treasurer or with a properly designated depository on the business day next following the day of receipt, if the total amount received exceeds one thousand dollars. If the total amount of public money received does not exceed one thousand dollars, the person shall deposit the moneys on the business day next following the day of receipt, unless the public office of which that person is a public official adopts a policy permitting a different time period, not to exceed three business days next following the day of receipt, for making such deposits, and the person is able to safeguard the moneys until such time as the moneys are deposited.

A test of 60 transactions in the Court disclosed that 40 transactions were not deposited in the time frame required.

We recommend the Court review its procedures of ensuring that monies collected are deposited in the required time frame.

| | |
|----------------|----------|
| Finding Number | 2002-014 |
|----------------|----------|

Ohio Rev. Code Section 3375.53 states that in each county, fifty per cent of all fines and penalties collected by, and of moneys arising from forfeited bail in, any court in that county for offenses brought for prosecution under Chapters 4301 and 4303 of the Revised Code and the state traffic laws shall be paid monthly by the treasurer of the county or municipal corporation to the board of trustees of the law library association in such county, but the sum so paid to such board by each treasurer shall not exceed twelve hundred dollars per annum under Chapters 4301 and 4303 of the Revised Code, and when that amount has been so paid to such board in accordance with this section, then no further payments shall be required there under in that calendar year from such treasurers.

During 2002, the Court did not make any payments to the law library for offenses incurred under these Chapters.

We recommend that any fines and penalties collected by the Court under Chapters 4301 and 4303 of the Ohio Revised Code be identified separately on the criminal cashbook ledger and remitted to the law library as prescribed.

**CITY OF EAST CLEVELAND
CUYAHOGA COUNTY
SCHEDULE OF FINDINGS
DECEMBER 31, 2002
(Continued)**

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|---------------------------------------|
| 3. FINDINGS FOR FEDERAL AWARDS |
|---------------------------------------|

| | |
|-----------------------|--|
| Finding Number | 2002-015 * |
| CFDA Title and Number | Community Development Block Grant, CFDA # 14.218 |
| Federal Agency | Department of Housing and Urban Development |

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

During calendar year 2002, neither the CAPs nor IDCRPs were prepared for the recovery of indirect costs. Instead, the City has been charging the CDBG program for indirect costs based on an indirect cost plan prepared several years ago by the HUD Office of Inspector General (OIG).

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

| | |
|-----------------------|---|
| Finding Number | 2002-016 * |
| CFDA Title and Number | Community Development Block Grant, CFDA # 14.218 HOME Program, CFDA # 14.239 |
| Federal Agency | Department of Housing and Urban Development |

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

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

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

**CITY OF EAST CLEVELAND
CUYAHOGA COUNTY
SCHEDULE OF FINDINGS
DECEMBER 31, 2002
(Continued)**

| |
|---------------------------------------|
| 3. FINDINGS FOR FEDERAL AWARDS |
|---------------------------------------|

(Continued)

| | |
|-----------------------|--|
| Finding Number | 2002-017 * |
| CFDA Title and Number | Community Development Block Grant, CFDA # 14.218 |
| Federal Agency | Department of Housing and Urban Development |

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

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

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

| | |
|-----------------------|--|
| Finding Number | 2002-018 * |
| CFDA Title and Number | Community Development Block Grant, CFDA # 14.218 |
| Federal Agency | Department of Housing and Urban Development |

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

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

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

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**CITY OF EAST CLEVELAND
CUYAHOGA COUNTY
SCHEDULE OF PRIOR AUDIT FINDINGS
DECEMBER 31, 2002**

| Finding Number | Finding Summary | Fully Corrected | Not corrected, partially corrected, different corrective action taken; finding no longer valid; Explain |
|----------------|---|-----------------|--|
| 2001-001 | Financial plan has not been updated as required by plan | No | See 2002-005 |
| 2001-002 | City did not inform their Financial Planning and Supervision Commission of \$713,062 in payables, as required | Yes | |
| 2001-003 | OP&F fined the City \$30,000 for late filings of physical examinations for police and firemen | Yes | |
| 2001-004 | As a result of the City's failure to remit the correct amount of taxes the City under paid \$52,523 in taxes and was assessed a penalty of \$23,896 and interest of \$3,385 | Yes | |
| 2001-005 | Fund expenditures plus encumbrances were in excess of appropriations | No | See 2002-006 |
| 2001-006 | Various funds had significant cash deficits | No | See 2002-004 |
| 2001-007 | 27% of purchase orders were not certified by the Finance Director prior to entering into the obligation, as required | No | See 2002-007 |
| 2001-008 | Total appropriations exceeded to total estimated revenue | No | See 2002-008 |
| 2001-009 | Bank accounts were not reconciled | Yes | |
| 2001-010 | Payroll controls were not working as designed | No | See 2002-003 |
| 2001-011 | 12% of the court cases could not be located, accurate cash journal were not maintained, an open item listing for the bail bond was not maintained | Yes | |
| 2001-012 | 20% of the time allocation sheets were not prepared for employees who work on a federal program and a non federal program or on more than one federal program award | Yes | |
| 2001-013 | A cost allocation plan or indirect cost rate proposal was not prepared to recover indirect cost as required | No | See 2002-015 |

**CITY OF EAST CLEVELAND
 CUYAHOGA COUNTY
 SCHEDULE OF PRIOR AUDIT FINDINGS
 DECEMBER 31, 2002
 (Continued)**

| Finding Number | Finding Summary | Fully Corrected | Not corrected, partially corrected, different corrective action taken; finding no longer valid; Explain |
|----------------|--|-----------------|--|
| 2001-014 | CDBG and HOME funds were drawn down before the expenditure was paid for with City funds. Also, the checks issued from the drawn down monies were not issued for periods of up to two weeks | No | See 2002-016 |
| 2001-015 | The City should revise its procurement procedures to comply with Federal law and require that personal service expenditures greater than \$3,500 follow competitive bidding requirements | Yes | |
| 2001-016 | The Community Development Department should implement monitoring procedures that provide reasonable assurance that sub-recipient activities are in accordance with the grant agreement | No | See 2002-017 |
| 2001-017 | The Community Development Department should comply with federal regulations and obtain the required suspension and debarment certifications | No | See 2002-018 |
| 2001-018 | The City should adhere to the federal regulations and obtain the required environmental reviews or provide written documentation that the project is exempt and meet the conditions specified for such exemption | Yes | |



**Auditor of State
Betty Montgomery**

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800-282-0370

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CITY OF EAST CLEVELAND

CUYAHOGA COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
FEBRUARY 28, 2006**