



**CITY OF EAST CLEVELAND  
CUYAHOGA COUNTY**

**SINGLE AUDIT**

**FOR THE YEAR ENDED DECEMBER 31, 2000**



**JIM PETRO**  
**AUDITOR OF STATE**  

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**STATE OF OHIO**



**CITY OF EAST CLEVELAND  
CUYAHOGA COUNTY**

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## REPORT OF INDEPENDENT ACCOUNTANTS

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, 2000, as listed in the table of contents. These general-purpose financial statements are the responsibility of the City's management. Our responsibility is to express an opinion on these general-purpose financial statements based on our audit.

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

In our opinion, the general-purpose financial statements referred to above present fairly, in all material respects, the financial position of the City, as of December 31, 2000, and the results of its operations and the cash flows of its proprietary fund type for the year then ended in conformity with generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated August 27, 2001 on our consideration of the City's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

We performed our audit to form an opinion on the general-purpose financial statements of the City, taken as a whole. The accompanying schedule of federal awards expenditures is presented for purposes of 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. Such information has been subjected to the auditing procedures applied in the audit of the general-purpose financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the general-purpose financial statements taken as a whole.

**Jim Petro**  
Auditor of State

August 27, 2001

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**City of East Cleveland, Ohio**  
*Combined Balance Sheet*  
*All Fund Types and Account Groups*  
*December 31, 2000*

	Governmental Fund		
	General	Special Revenue	Debt Service
<b><i>Assets and Other Debits</i></b>			
<b>Assets</b>			
Equity in Pooled Cash and Cash Equivalents	\$298,349	\$2,221,125	\$18,971
Cash and Cash Equivalents in Segregated Accounts	0	143,854	0
Cash and Cash Equivalents with Fiscal and Escrow Agents	0	0	3,282
Receivables:			
Taxes	2,805,296	118,264	0
Accounts	61,771	0	0
Interfund	3,099,125	0	0
Intergovernmental	256,215	30,634	0
Materials and Supplies Inventory	13,621	3,154	0
Prepaid Items	6,289	0	0
Fixed Assets (Net, where applicable, of Accumulated Depreciation)	0	0	0
<b>Other Debits</b>			
Amount Available in Debt Service Fund for Retirement of General Obligation Bonds	0	0	0
Amount to be Provided from General Government Resources	0	0	0
<b><i>Total Assets and Other Debits</i></b>	<b>\$6,540,666</b>	<b>\$2,517,031</b>	<b>\$22,253</b>

See accompanying notes to the general purpose financial statements



Types	Proprietary Fund Type	Fiduciary Fund Type	Account Groups		Totals (Memorandum Only)
			General Fixed Assets	General Long-Term Obligations	
Capital Projects	Enterprise	Agency			
\$1,164,930	\$0	\$446,422	\$0	\$0	\$4,149,797
0	0	435,885	0	0	579,739
0	0	0	0	0	3,282
394,214	0	0	0	0	3,317,774
0	2,782,851	0	0	0	2,844,622
0	0	0	0	0	3,099,125
0	0	0	0	0	286,849
0	0	0	0	0	16,775
0	0	0	0	0	6,289
0	7,163,967	0	10,038,931	0	17,202,898
0	0	0	0	22,253	22,253
0	0	0	0	4,281,963	4,281,963
<u>\$1,559,144</u>	<u>\$9,946,818</u>	<u>\$882,307</u>	<u>\$10,038,931</u>	<u>\$4,304,216</u>	<u>\$35,811,366</u>

See accompanying notes to the general purpose financial statements

(continued)

**City of East Cleveland, Ohio**  
*Combined Balance Sheet*  
*All Fund Types and Account Groups (continued)*  
*December 31, 2000*

	Governmental Fund		
	General	Special Revenue	Debt Service
<b><i>Liabilities, Fund Equity and Other Credits</i></b>			
<b>Liabilities</b>			
Accounts Payable	\$358,261	\$136,241	\$0
Interfund Payable	0	963,639	0
Accrued Wages	293,665	41,101	0
Compensated Absences Payable	45,195	2,607	0
Claims Payable	100,642	18,830	0
Intergovernmental Payable	164,179	23,402	0
Deferred Revenue	1,990,776	118,264	0
Undistributed Monies	0	0	0
Deposits Held and Due to Others	0	0	0
Capital Leases Payable	0	0	0
OPWC Loans Payable	0	0	0
Police and Fire Liability	0	0	0
<b><i>Total Liabilities</i></b>	<b>2,952,718</b>	<b>1,304,084</b>	<b>0</b>
<b>Fund Equity and Other Credits</b>			
Investment in General Fixed Assets	0	0	0
Contributed Capital	0	0	0
Retained Earnings (Deficit)	0	0	0
Fund Balance:			
Reserved for Encumbrances	240,054	508,494	0
Reserved for Inventory	13,621	3,154	0
Unreserved, Undesignated	3,334,273	701,299	22,253
<b><i>Total Fund Equity and Other Credits</i></b>	<b>3,587,948</b>	<b>1,212,947</b>	<b>22,253</b>
<b><i>Total Liabilities, Fund Equity and Other Credits</i></b>	<b>\$6,540,666</b>	<b>\$2,517,031</b>	<b>\$22,253</b>

See accompanying notes to the general purpose financial statements

Types	Proprietary	Fiduciary	Account Groups		Totals (Memorandum Only)
	Fund Type	Fund Types	General Fixed Assets	General Long-Term Obligations	
Capital Projects	Enterprise	Agency			
\$149,625	\$9,838	\$0	\$0	\$0	\$653,965
0	2,135,486	0	0	0	3,099,125
0	20,623	0	0	0	355,389
0	28,211	0	0	1,675,264	1,751,277
0	4,799	0	0	0	124,271
0	9,828	0	0	390,747	588,156
394,214	0	0	0	0	2,503,254
0	0	435,885	0	0	435,885
0	0	446,422	0	0	446,422
0	0	0	0	547,920	547,920
0	638,485	0	0	7,411	645,896
0	0	0	0	1,682,874	1,682,874
<u>543,839</u>	<u>2,847,270</u>	<u>882,307</u>	<u>0</u>	<u>4,304,216</u>	<u>12,834,434</u>
0	0	0	10,038,931	0	10,038,931
0	7,832,733	0	0	0	7,832,733
0	(733,185)	0	0	0	(733,185)
17,999	0	0	0	0	766,547
0	0	0	0	0	16,775
<u>997,306</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>5,055,131</u>
<u>1,015,305</u>	<u>7,099,548</u>	<u>0</u>	<u>10,038,931</u>	<u>0</u>	<u>22,976,932</u>
<u>\$1,559,144</u>	<u>\$9,946,818</u>	<u>\$882,307</u>	<u>\$10,038,931</u>	<u>\$4,304,216</u>	<u>\$35,811,366</u>

See accompanying notes to the general purpose financial statements

**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, 2000*

	Governmental Fund	
	General	Special Revenue
<b>Revenues</b>		
Municipal Income Tax	\$7,836,023	\$0
Property and Other Taxes	1,607,764	94,626
Charges for Services	23,209	45,297
Licenses and Permits	901,580	74,707
Fines and Forfeitures	674,963	39,734
Intergovernmental	4,473,381	2,785,964
Special Assessments	428,935	0
Interest	174,642	0
Rental	2,438	0
Other	484,883	993,083
	<b>Total Revenues</b>	<b>4,033,411</b>
	16,607,818	4,033,411
<b>Expenditures</b>		
Current:		
General Government	4,550,541	1,846,786
Security of Persons and Property	7,777,181	262,419
Transportation	300,994	500,169
Community Environment	298,569	2,180,045
Basic Utility Services	1,156,285	0
Leisure Time Activities	226,292	0
Capital Outlay	0	533,495
Debt Service:		
Principal Retirement	780	76,913
Interest and Fiscal Charges	359	100,186
	<b>Total Expenditures</b>	<b>5,500,013</b>
	14,311,001	5,500,013
<i>Excess of Revenues Over (Under) Expenditures</i>	<b>2,296,817</b>	<b>(1,466,602)</b>
	(2,296,817)	(1,466,602)
<b>Other Financing Sources (Uses)</b>		
Sale of Fixed Assets	810	0
Inception of Capital Lease	37,001	11,574
Operating Transfers In	0	438,061
Operating Transfers Out	(2,092,398)	(256)
	<b>Total Other Sources (Uses)</b>	<b>449,379</b>
	(2,054,587)	449,379
<i>Excess of Revenues and Other Financing Sources Over (Under) Expenditures and Other Financing Uses</i>	<b>242,230</b>	<b>(1,017,223)</b>
	242,230	(1,017,223)
<i>Fund Balances Beginning of Year (Restated - Note 3)</i>	<b>3,344,970</b>	<b>2,227,016</b>
	3,344,970	2,227,016
Increase in Reserve for Inventory	748	3,154
	<b>Fund Balances End of Year</b>	<b>\$1,212,947</b>
	<b>\$3,587,948</b>	<b>\$1,212,947</b>

See accompanying notes to the general purpose financial statements

Types		Totals (Memorandum Only)
Debt Service	Capital Projects	
\$0	\$0	\$7,836,023
0	315,422	2,017,812
0	0	68,506
0	0	976,287
0	0	714,697
0	142,580	7,401,925
0	0	428,935
201	24,636	199,479
0	0	2,438
0	245,354	1,723,320
201	727,992	21,369,422
0	0	6,397,327
0	0	8,039,600
0	0	801,163
0	0	2,478,614
0	0	1,156,285
0	0	226,292
0	846,906	1,380,401
256	37,842	115,791
0	3,357	103,902
256	888,105	20,699,375
(55)	(160,113)	670,047
0	0	810
0	34,485	83,060
256	125,000	563,317
0	0	(2,092,654)
256	159,485	(1,445,467)
201	(628)	(775,420)
22,052	1,015,933	6,609,971
0	0	3,902
<u>\$22,253</u>	<u>\$1,015,305</u>	<u>\$5,838,453</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, 2000*

	General Fund		Variance Favorable (Unfavorable)
	Revised Budget	Actual	
<b>Revenues</b>			
Municipal Income Tax	\$7,092,326	\$8,126,105	\$1,033,779
Property and Other Taxes	1,602,747	1,604,616	1,869
Charges for Services	66,224	60,252	(5,972)
Licenses and Permits	1,045,436	901,580	(143,856)
Fines and Forfeitures	719,331	674,798	(44,533)
Intergovernmental	4,040,566	4,498,574	458,008
Special Assessments	388,658	428,935	40,277
Interest	182,800	174,642	(8,158)
Rental	16,684	2,438	(14,246)
Other	469,911	486,813	16,902
<i>Total Revenues</i>	<u>15,624,683</u>	<u>16,958,753</u>	<u>1,334,070</u>
<b>Expenditures</b>			
Current:			
General Government	4,905,978	4,774,363	131,615
Security of Persons and Property	8,108,466	7,852,208	256,258
Transportation	399,337	394,628	4,709
Community Environment	322,152	302,784	19,368
Basic Utility Services	1,064,206	1,054,887	9,319
Leisure Time Activities	245,186	230,925	14,261
Capital Outlay	0	0	0
Debt Service:			
Principal Retirement	0	0	0
<i>Total Expenditures</i>	<u>15,045,325</u>	<u>14,609,795</u>	<u>435,530</u>
<i>Excess of Revenues Over (Under) Expenditures</i>	<u>579,358</u>	<u>2,348,958</u>	<u>1,769,600</u>
<b>Other Financing Sources (Uses)</b>			
Sale of Fixed Assets	12,000	810	(11,190)
Advances In	0	0	0
Advances Out	(631,332)	(627,251)	4,081
Operating Transfers In	20,345	0	(20,345)
Operating Transfers Out	(2,112,743)	(2,092,398)	20,345
<i>Total Other Sources (Uses)</i>	<u>(2,711,730)</u>	<u>(2,718,839)</u>	<u>(7,109)</u>
<i>Excess of Revenues and Other Financing Sources Over (Under) Expenditures and Other Financing Uses</i>	<u>(2,132,372)</u>	<u>(369,881)</u>	<u>1,762,491</u>
<i>Fund Balances Beginning of Year</i>	2,312,767	2,312,767	0
Unexpended Prior Year Encumbrances	<u>220,083</u>	<u>220,083</u>	<u>0</u>
<i>Fund Balances End of Year</i>	<u><u>\$400,478</u></u>	<u><u>\$2,162,969</u></u>	<u><u>\$1,762,491</u></u>

See accompanying notes to the general purpose financial statements

Special Revenue Funds			Debt Service Funds		
Revised Budget	Actual	Variance Favorable (Unfavorable)	Revised Budget	Actual	Variance Favorable (Unfavorable)
\$0	\$0	\$0	\$0	\$0	\$0
96,934	94,626	(2,308)	0	0	0
90,106	45,697	(44,409)	0	0	0
70,000	79,595	9,595	0	0	0
20,000	27,368	7,368	0	0	0
7,882,137	2,859,891	(5,022,246)	0	0	0
0	0	0	0	0	0
0	0	0	199	201	2
0	0	0	0	0	0
1,020,772	993,442	(27,330)	0	0	0
9,179,949	4,100,619	(5,079,330)	199	201	2
3,545,143	1,946,075	1,599,068	0	0	0
582,481	402,930	179,551	0	0	0
694,127	519,679	174,448	0	0	0
5,338,755	2,456,973	2,881,782	0	0	0
0	0	0	0	0	0
0	0	0	0	0	0
513,331	542,891	(29,560)	0	0	0
0	0	0	515	256	259
10,673,837	5,868,548	4,805,289	515	256	259
(1,493,888)	(1,767,929)	(274,041)	(316)	(55)	261
0	0	0	0	0	0
0	627,251	627,251	0	0	0
0	0	0	0	0	0
443,060	438,061	(4,999)	515	256	(259)
(515)	(256)	259	0	0	0
442,545	1,065,056	622,511	515	256	(259)
(1,051,343)	(702,873)	348,470	199	201	2
2,234,342	2,234,342	0	18,770	18,770	0
146,366	146,366	0	0	0	0
<u>\$1,329,365</u>	<u>\$1,677,835</u>	<u>\$348,470</u>	<u>\$18,969</u>	<u>\$18,971</u>	<u>\$2</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, 2000*

	<u>Capital Projects Funds</u>		
	<u>Revised Budget</u>	<u>Actual</u>	<u>Variance Favorable (Unfavorable)</u>
<b>Revenues</b>			
Municipal Income Tax	\$0	\$0	\$0
Property and Other Taxes	312,509	315,422	2,913
Charges for Services	0	0	0
Licenses and Permits	0	0	0
Fines and Forfeitures	0	0	0
Intergovernmental	45,961	189,079	143,118
Special Assessments	0	0	0
Interest	33,000	24,636	(8,364)
Rental	0	0	0
Other	198,855	198,855	0
<i>Total Revenues</i>	<u>590,325</u>	<u>727,992</u>	<u>137,667</u>
<b>Expenditures</b>			
Current:			
General Government	0	0	0
Security of Persons and Property	0	0	0
Transportation	0	0	0
Community Environment	0	0	0
Basic Utility Services	0	0	0
Leisure Time Activities	0	0	0
Capital Outlay	866,733	871,380	(4,647)
Debt Service:			
Principal Retirement	0	0	0
<i>Total Expenditures</i>	<u>866,733</u>	<u>871,380</u>	<u>(4,647)</u>
<i>Excess of Revenues Over (Under) Expenditures</i>	<u>(276,408)</u>	<u>(143,388)</u>	<u>133,020</u>
<b>Other Financing Sources (Uses)</b>			
Sale of Fixed Assets	0	0	0
Advances In	0	0	0
Advances Out	0	0	0
Operating Transfers In	50,000	125,000	75,000
Operating Transfers Out	0	0	0
<i>Total Other Sources (Uses)</i>	<u>50,000</u>	<u>125,000</u>	<u>75,000</u>
<i>Excess of Revenues and Other Financing Sources Over (Under) Expenditures and Other Financing Uses</i>	<u>(226,408)</u>	<u>(18,388)</u>	<u>208,020</u>
<i>Fund Balances Beginning of Year</i>	943,708	943,708	0
Unexpended Prior Year Encumbrances	<u>72,225</u>	<u>72,225</u>	<u>0</u>
<i>Fund Balances End of Year</i>	<u><u>\$789,525</u></u>	<u><u>\$997,545</u></u>	<u><u>\$208,020</u></u>

See accompanying notes to the general purpose financial statements



Totals (Memorandum Only)		
Revised Budget	Actual	Variance Favorable (Unfavorable)
\$7,092,326	\$8,126,105	\$1,033,779
2,012,190	2,014,664	2,474
156,330	105,949	(50,381)
1,115,436	981,175	(134,261)
739,331	702,166	(37,165)
11,968,664	7,547,544	(4,421,120)
388,658	428,935	40,277
215,999	199,479	(16,520)
16,684	2,438	(14,246)
1,689,538	1,679,110	(10,428)
<u>25,395,156</u>	<u>21,787,565</u>	<u>(3,607,591)</u>
8,451,121	6,720,438	1,730,683
8,690,947	8,255,138	435,809
1,093,464	914,307	179,157
5,660,907	2,759,757	2,901,150
1,064,206	1,054,887	9,319
245,186	230,925	14,261
1,380,064	1,414,271	(34,207)
<u>515</u>	<u>256</u>	<u>259</u>
<u>26,586,410</u>	<u>21,349,979</u>	<u>5,236,431</u>
<u>(1,191,254)</u>	<u>437,586</u>	<u>1,628,840</u>
12,000	810	(11,190)
0	627,251	627,251
(631,332)	(627,251)	4,081
513,920	563,317	49,397
<u>(2,113,258)</u>	<u>(2,092,654)</u>	<u>20,604</u>
<u>(2,218,670)</u>	<u>(1,528,527)</u>	<u>690,143</u>
(3,409,924)	(1,090,941)	2,318,983
5,509,587	5,509,587	0
<u>438,674</u>	<u>438,674</u>	<u>0</u>
<u>\$2,538,337</u>	<u>\$4,857,320</u>	<u>\$2,318,983</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, 2000*

	Enterprise
<b>Operating Revenues</b>	
Charges for Services	\$9,032,297
Other	1,092
	<u>9,033,389</u>
<i>Total Operating Revenues</i>	<u>9,033,389</u>
<b>Operating Expenses</b>	
Personal Services	561,289
Contractual Services	8,218,431
Materials and Supplies	72,550
Other	26,079
Bad Debt Expense	352,000
Depreciation	336,304
	<u>9,566,653</u>
<i>Total Operating Expenses</i>	<u>9,566,653</u>
<i>Operating Loss</i>	(533,264)
<b>Non-Operating Revenues</b>	
Interest	23,278
	<u>23,278</u>
<i>Loss Before Operating Transfers</i>	(509,986)
Operating Transfers In	1,896,337
Operating Transfers Out	(367,000)
	<u>1,529,337</u>
<i>Net Income</i>	1,019,351
<i>Retained Earnings (Deficit) Beginning of Year (Restated - See Note 3)</i>	<u>(1,752,536)</u>
<i>Retained Earnings (Deficit) End of Year</i>	(733,185)
<i>Contributed Capital Beginning and End of Year</i>	<u>7,832,733</u>
<i>Total Fund Equity End of Year</i>	<u><u>\$7,099,548</u></u>

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, 2000*

	Enterprise
<b><i>Increase (Decrease) in Cash and Cash Equivalents</i></b>	
<b>Cash Flows From Operating Activities</b>	
Cash Received From Customers	\$7,635,800
Cash Payments to Suppliers for Materials and Supplies	(70,689)
Cash Payments for Employee Services and Benefits	(557,173)
Cash Payments for Contractual Services	(8,897,980)
Other Operating Expenses	(23,894)
	(1,913,936)
<b><i>Net Cash Used for Operating Activities</i></b>	
<b>Cash Flows from Noncapital Financing Activities:</b>	
Transfers In	1,896,337
Transfers Out	(367,000)
Advances In	2,135,486
	3,664,823
<b><i>Net Cash Provided by Noncapital Financing Activities</i></b>	
<b>Cash Flows From Capital and Related Financing Activities</b>	
Acquisition of Capital Assets	(7,421)
Principal Paid on OPWC Loans	(20,934)
	(28,355)
<b><i>Net Cash Used for Capital and Related Financing Activities</i></b>	
<b>Cash Flows from Investing Activities</b>	
Interest	23,278
	1,745,810
<b><i>Net Increase in Cash and Cash Equivalents</i></b>	
<b><i>Cash and Cash Equivalents Beginning of Year</i></b>	<b><i>(1,745,810)</i></b>
<b><i>Cash and Cash Equivalents End of Year</i></b>	<b><i>\$0</i></b>
	(continued)

**City of East Cleveland, Ohio**  
*Combined Statement of Cash Flows*  
*Proprietary Fund Type (continued)*  
*For the Year Ended December 31, 2000*

	<u>Enterprise</u>
<b>Reconciliation of Operating Loss to Net Cash Used for Operating Activities</b>	
<i>Operating Loss</i>	<u>(\$533,264)</u>
<b>Adjustments to Reconcile Operating Loss to Net Cash Provided by Operating Activities:</b>	
Depreciation	336,304
(Increase)/Decrease in Assets:	
Accounts Receivable	(1,045,589)
Increase/(Decrease) in Liabilities:	
Accounts Payable	(81,840)
Accrued Wages	(1,672)
Claims Payable	707
Compensated Absences Payable	6,265
Intergovernmental Payable	<u>(594,847)</u>
<i>Total Adjustments</i>	<u>(1,380,672)</u>
<i>Net Cash Used for Operating Activities</i>	<u><u>(\$1,913,936)</u></u>

See accompanying notes to the general purpose financial statements

**City of East Cleveland, Ohio**  
*Combined Statement of Revenues, Expenses and  
Changes in Fund Equity - Budget (Non-GAAP Basis) and Actual  
Proprietary Fund Type  
For the Year Ended December 31, 2000*

	Enterprise Funds		Variance Favorable (Unfavorable)
	Revised Budget	Actual	
<b>Revenues</b>			
Charges for Services	\$9,824,581	\$7,635,800	(\$2,188,781)
Interest	42,375	23,278	(19,097)
<i>Total Revenues</i>	<u>9,866,956</u>	<u>7,659,078</u>	<u>(2,207,878)</u>
<b>Expenses</b>			
Personal Services	601,046	557,942	43,104
Materials and Supplies	104,566	87,470	17,096
Contractual Services	7,955,043	8,907,766	(952,723)
Other	33,878	26,701	7,177
Capital Outlay	35,208	18,365	16,843
Debt Service:			
Principal Retirement	40,800	20,934	19,866
<i>Total Expenses</i>	<u>8,770,541</u>	<u>9,619,178</u>	<u>(848,637)</u>
<i>Excess of Revenues Over (Under) Expenses</i>	1,096,415	(1,960,100)	(3,056,515)
Operating Transfers In	1,644,696	1,896,337	251,641
Operating Transfers Out	(811,277)	(367,000)	444,277
<i>Excess of Revenues Over (Under) Expenses and Transfers</i>	1,929,834	(430,763)	(2,360,597)
<i>Fund Equity (Deficit) Beginning of Year</i>	(1,749,717)	(1,749,717)	0
Unexpended Prior Year Encumbrances	3,907	3,907	0
<i>Fund Equity (Deficit) End of Year</i>	<u>\$184,024</u>	<u>(\$2,176,573)</u>	<u>(\$2,360,597)</u>

See accompanying notes to the general purpose financial statements

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**City of East Cleveland, Ohio**  
*Notes To The General Purpose Financial Statements*  
*For the Year Ended December 31, 2000*

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

***A. Reporting Entity***

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

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

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

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

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

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

**City of East Cleveland, Ohio**  
*Notes To The General Purpose Financial Statements*  
*For the Year Ended December 31, 2000*

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

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

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

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

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

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

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

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

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

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

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

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



**City of East Cleveland, Ohio**  
*Notes To The General Purpose Financial Statements*  
*For the Year Ended December 31, 2000*

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

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

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

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

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

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

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

The accounting and reporting treatment applied to a fund is determined by its measurement focus. All governmental fund types 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 fund types 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 (e.g., revenues) and decreases (e.g., 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.

All governmental fund types and agency funds are accounted for using the modified accrual basis of accounting. Under this basis, revenues are recognized in the accounting period when they become both measurable and available. Measurable means the amount of the transaction can be determined and available means collectible within the current year or soon enough thereafter to be used to pay liabilities of the current year. The available period for the City is sixty days after year end.

**City of East Cleveland, Ohio**  
*Notes To The General Purpose Financial Statements*  
*For the Year Ended December 31, 2000*

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In applying the susceptible to accrual concept under the modified accrual basis, the following revenue sources are deemed both measurable and available: interest, state-levied locally shared taxes (including gasoline tax) and income tax withheld by employers.

The City reports deferred revenues on its combined balance sheet. Deferred revenues arise when a potential revenue does not meet both the measurable and available criteria for recognition in the current period. In subsequent periods, when both revenue recognition criteria are met, the liability for deferred revenue is removed from the combined balance sheet and revenue is recognized. Current and delinquent property taxes measurable as of December 31, 2000, whose availability is indeterminate and which are not intended to finance current period obligations, have been recorded as a receivable and deferred revenue.

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

The accrual basis of accounting is utilized for reporting purposes by the proprietary fund types. Revenues are recognized when they are earned and become measurable and expenses are recognized when they are incurred, if measurable. Unbilled service charges receivable are recognized as revenue at year end.

***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 the appropriations cannot exceed estimated resources, as certified. All funds, other than agency funds, are legally required to be budgeted and appropriated.

All disbursements require appropriation authority. The legal level of budgetary control is at the object level within each department. Any budgetary modifications at this level may only be made by resolution of the City Council.

Advances in and advances out are not required to be budgeted since they represent a temporary cash flow resource and are intended to be repaid.

***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

**City of East Cleveland, Ohio**  
*Notes To The General Purpose Financial Statements*  
*For the Year Ended December 31, 2000*

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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 on the budgetary statements reflect the amounts in the final amended official certificate of estimated resources issued during 2000.

***Appropriations*** A temporary appropriation ordinance to control expenditures may be passed on or about January 1 of each year for the period January 1 to March 31. An annual appropriation ordinance must be passed by April 1 of each year for the period January 1 to December 31. The appropriation ordinance fixes spending authority at the fund, department, and object level. The appropriation ordinance may be amended during the year as new information becomes available. Total fund appropriations may not exceed current estimated resources, as certified. The allocation of appropriations among departments and objects within a fund may be modified during the year only by an ordinance of Council. During the year, several supplemental appropriation measures were passed. However, none were significant in amount. The budget figures which appear in the statement of budgetary comparisons represent the final appropriation amounts, including all amendments and modifications.

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

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

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

Cash received by the City is deposited into several bank accounts. Monies from all funds, including the enterprise funds, are maintained in these accounts or temporarily used to purchase short-term investments. Individual fund integrity is maintained through the City's records. The general fund made advances to the water and sewer enterprise funds to eliminate the funds' negative cash balances. The water and sewer enterprise funds have interfund payables for the amount of the advance received from the general fund and the general fund has an interfund receivable for the same amount on the combined balance sheet.

During 2000, investments were limited to STAROhio and repurchase agreements. 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, 2000.

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.

**City of East Cleveland, Ohio**  
*Notes To The General Purpose Financial Statements*  
*For the Year Ended December 31, 2000*

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

Investment procedures are restricted by the provisions of the Ohio Revised Code. Interest revenue credited to the general fund during 2000 amounted to \$174,642, which includes \$163,498 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."

***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.

**City of East Cleveland, Ohio**  
*Notes To The General Purpose Financial Statements*  
*For the Year Ended December 31, 2000*

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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 judgements, 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.

***H. Compensated Absences***

The liability for compensated absences is based on the provisions of Governmental Accounting Standards Board Statement No. 16, "Accounting for 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.

**City of East Cleveland, Ohio**  
*Notes To The General Purpose Financial Statements*  
*For the Year Ended December 31, 2000*

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***I. Fund Equity***

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

***J. Interfund Transactions***

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

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

***K. Estimates***

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

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

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

**Note 3 - Restatement of Prior Year's Fund Equity**

At December 31, 1999, loans receivable were overstated by \$22,840 in the special revenue funds. This restatement decreased the fund balance as of December 31, 1999 from \$2,249,856 to \$2,227,016.

At December 31, 1999, fixed assets were overstated by \$85,205 in the enterprise funds. This restatement decreased the retained earnings as of December 31, 1999 from (\$1,667,331) to (\$1,752,536).

At December 31, 1999, the contingent liability was overstated by \$25,000. The balance of the General Long-Term Obligation Account Group decreased from 3,888,016 to \$3,863,016.

**City of East Cleveland, Ohio**  
*Notes To The General Purpose Financial Statements*  
For the Year Ended December 31, 2000

**Note 4 - Budgetary Basis of Accounting**

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

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

1. Revenues are recorded when received in cash (budget) as opposed to when susceptible to accrual (GAAP).
2. Expenditures/expenses are recorded when paid in cash (budget) as opposed to when the liability is incurred (GAAP).
3. Encumbrances are treated as expenditures for all funds (budget) rather than as a reservation of fund balance for governmental fund types (GAAP).
4. Proceeds and principal payment on short-term note obligations are reported on the operating statement (budget) as opposed to balance sheet transactions (GAAP).
5. 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).

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	\$92,030	(\$866,766)	(\$55)	(\$628)
Net Adjustment for Revenue Accruals	314,341	57,627	0	0
Advances In	0	627,251	0	0
Net Adjustment for Expenditure Accruals	85,475	58,952	0	149,625
Advances Out	(627,251)	0	0	0
Encumbrances	(384,676)	(427,616)	0	(167,385)
Budget Basis	(\$520,081)	(\$550,552)	(\$55)	(\$18,388)

**City of East Cleveland, Ohio**  
*Notes To The General Purpose Financial Statements*  
*For the Year Ended December 31, 2000*

Net Income/Excess of Revenues Under Expenses Proprietary Fund Type	
	Enterprise
GAAP Basis	\$1,019,351
Net Adjustment for Revenue Accruals	(1,397,589)
Net Adjustment for Expense Accruals	(671,387)
Depreciation Expense	336,304
Bad Debt Expense	352,000
Principal Retirement	(20,934)
Capital Outlay	(7,421)
Encumbrances	(41,087)
Budget Basis	(\$430,763)

**Note 5 - Accountability and Compliance**

**A. Fund Deficits**

The following funds had deficit fund balances as of December 31, 2000:

Fund	Amount
<i>Special Revenue Funds:</i>	
Older Americans	\$183,598
Recycling Grant.	12,641
Community Development	620,779
Special Purpose Grant	31,664
Engineering and Building	2,950
Block Grant 97	8,325

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



**City of East Cleveland, Ohio**  
*Notes To The General Purpose Financial Statements*  
*For the Year Ended December 31, 2000*

**B. Legal Compliance**

The following accounts had expenditures plus encumbrances in excess of appropriations contrary to Ohio Revised Code Section 5705.41(B) and (D):

Fund/Program	Appropriations	Expenditures Plus Encumbrances	Excess
<b>Special Revenue Fund:</b>			
CSX Award			
Capital Outlay	298,246	510,329	(212,083)
<b>Capital Project Fund:</b>			
Permanent Improvements			
Capital Outlay	6,762	43,851	(37,089)
<b>Enterprise Funds:</b>			
Water Fund			
Contractual Services	4,267,144	4,607,348	(340,204)
Sewer Fund			
Contractual Services	3,687,899	4,300,418	(612,519)
Other Expenses	11,616	11,793	(177)
Capital Outlay	6,391	8,687	(2,296)

In order to eliminate the budgetary violations, appropriations will be monitored more closely.

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:

Community Development	\$113,810
Water Enterprise Fund	800,180
Sewer Enterprise Fund	1,335,306

In order to eliminate these deficits, the City increased the rates charged in 2000. Also in 2000, the City adopted an ordinance which passes all supplier rate increases on to the residents of the City. Previously, supplier rate increases were not passed on to the residents of the City. The City is currently in the process of contracting with a private firm to operate the water and sewer departments which should significantly reduce its operating costs.

Contrary to Ohio Revised Code 5705.41 (D), the City did not properly certify the availability of funds.

**City of East Cleveland, Ohio**  
*Notes To The General Purpose Financial Statements*  
*For the Year Ended December 31, 2000*

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**Note 6 - Deposits and Investments**

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

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

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

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

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

Interim monies may be invested in the following securities:

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

**City of East Cleveland, Ohio**  
*Notes To The General Purpose Financial Statements*  
*For the Year Ended December 31, 2000*

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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 \$2,227,514 and the bank balance was \$2,995,454. Of the bank balance:

1. \$403,282 was covered by federal depository insurance.
2. \$2,592,172 was uncollateralized and uninsured. Although the securities were held by the pledging financial institutions trust department or agent in the City's name and all State statutory requirements for the investment of money had been followed, noncompliance with federal requirements could potentially subject the City to a successful claim by the FDIC.

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

**City of East Cleveland, Ohio**  
*Notes To The General Purpose Financial Statements*  
*For the Year Ended December 31, 2000*

	Category 3	Carrying Value	Fair Value
Repurchase Agreements	<u>\$1,652,726</u>	<u>\$1,652,726</u>	\$1,652,726
StarOhio			<u>852,579</u>
Total Investments			<u>\$2,505,305</u>

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	\$4,732,819	\$0
Investments:		
Repurchase Agreements	(1,652,726)	1,652,726
STAROhio	<u>(852,579)</u>	<u>852,579</u>
GASB Statement No. 3	<u>\$2,227,514</u>	<u>\$2,505,305</u>

**Note 7 - Taxes**

**A. Property Taxes**

Property taxes include amounts levied against all real, public utility and tangible personal property located in the City. Property tax revenue received during 2000 for real and public property taxes represents collections of 1999 taxes. Property tax payments received during 2000 for tangible personal property (other than public utility property) is for 2000 taxes.

2000 real property taxes are levied after October 1, 2000, on the assessed value as of January 1, 2000, the lien date. Assessed values are established by State law at 35 percent of appraised market value. 2000 real property taxes are collected in and intended to finance 2001.

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. 2000 public utility property taxes became a lien December 31, 1999, are levied after October 1, 2000, and are collected in 2001 with real property taxes.

2000 tangible personal property taxes are levied after October 1, 1999, on the values as of December 31, 1999. Collections are made in 2000. Tangible personal property assessments are 25 percent of true value.

**City of East Cleveland, Ohio**  
*Notes To The General Purpose Financial Statements*  
*For the Year Ended December 31, 2000*

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The full tax rate for all City operations for the year ended December 31, 2000, was \$12.70 per \$1,000 of assessed value. The assessed values of real and tangible personal property upon with 2000 property tax receipts were based as follows:

Real Estate:	
Residential/Agricultural	\$116,090,960
Other Real Estate	<u>50,012,130</u>
Total Real Estate	<u>166,103,090</u>
Tangible Personal Property:	
Public Utility	17,233,120
General Tangible Personal Property	<u>12,523,351</u>
Total Personal Property	<u>29,756,471</u>
Total Assessed Value	<u><u>\$195,859,561</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.

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. Property taxes receivable represent real and tangible personal property taxes, public utility taxes and outstanding delinquencies which are measurable as of December 31, 2000. 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 2000 operations. The receivable is offset by deferred revenue.

***B. Income Taxes***

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

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

**City of East Cleveland, Ohio**  
*Notes To The General Purpose Financial Statements*  
*For the Year Ended December 31, 2000*

**Note 8 - Receivables**

Receivables at December 31, 2000 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 \$4,115,062. The allowance for doubtful accounts was \$1,801,786 and the collectible aged accounts receivable was \$2,313,276.

A summary of the principal items of intergovernmental receivables follows:

Intergovernmental Receivables	Amount
<i>General Fund:</i>	
Grants	
Liquor Permits	\$15,985
Hotel Tax	3,296
Local Government Assistance	236,934
<i>Total General Fund</i>	256,215
<i>Special Revenue Funds:</i>	
Street	26,612
VOCA	4,022
<i>Total Special Revenue Funds</i>	30,634
<i>Total</i>	\$286,849

**Note 9 - Fixed Assets**

A summary of the enterprise funds' fixed assets at December 31, 2000 follows:

Water Lines	\$8,370,468
Machinery and Equipment	222,995
Less Accumulated Depreciation	(1,429,496)
Net Fixed Assets	\$7,163,967

A summary of changes in general fixed assets during 2000 follows:

	Balance 1/1/00	Additions	Deductions	Balance 12/31/00
Land	\$2,063,948	\$0	\$0	\$2,063,948
Buildings	2,993,702	175,023	0	3,168,725
Machinery and Equipment	4,464,074	342,184	0	4,806,258
Total	\$9,521,724	\$517,207	\$0	\$10,038,931

**City of East Cleveland, Ohio**  
*Notes To The General Purpose Financial Statements*  
*For the Year Ended December 31, 2000*

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**Note 10 - Contingencies**

**A. Litigation**

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

**B. Grants**

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

**Note 11 - Capital Leases**

Capital lease obligations recorded in the general long-term obligations account group relate to a copier, computer equipment, telephone equipment, fire equipment and trucks which are leased under long-term agreements. These agreements meet the criteria of a capital lease as defined by Financial Accounting 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 \$831,150, 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, 2000.

Year	Amount
2001	\$110,121
2002	109,921
2003	100,698
2004	76,522
2005	76,521
2006-2008	184,926
Total minimum lease payments	\$658,709
Less: Amount representing interest	(110,789)
Present value of minimum lease payments	\$547,920

**City of East Cleveland, Ohio**  
*Notes To The General Purpose Financial Statements*  
*For the Year Ended December 31, 2000*

**Note 12 - Long Term Obligations**

Changes in the long-term obligations of the City during 2000 were as follows:

	Outstanding 12/31/99	Additions	(Reductions)	Outstanding 12/31/00
<b>General Long-term Obligations:</b>				
OPWC Loan 0%	\$7,667	\$0	(\$256)	\$7,411
Capital Leases	559,171	83,060	(94,311)	547,920
Police and Fire Pension Liability	1,704,098	0	(21,224)	1,682,874
Compensated Absences	1,128,559	546,705	0	1,675,264
Intergovernmental Payable	463,521	390,747	(463,521)	390,747
<b>Total General Long-Term Obligations</b>	<b>3,863,016</b>	<b>1,020,512</b>	<b>(579,312)</b>	<b>4,304,216</b>
<b>Enterprise Fund Obligations</b>				
OPWC Loans 0%	659,419	0	(20,934)	638,485
<b>Total</b>	<b>\$4,522,435</b>	<b>\$1,020,512</b>	<b>(\$600,246)</b>	<b>\$4,942,701</b>

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

The City's overall legal debt margin was \$17,597,696 at December 31, 2000. Principal and interest requirements to retire long-term obligations outstanding at December 31, 2000 are as follows:

	OPWC Loans	Police and Fire Liability
2001	\$62,733	\$93,596
2002	42,379	93,596
2003	42,379	93,596
2004	42,379	93,596
2005	42,379	93,596
2005-2010	211,899	467,982
2011-2015	172,012	467,982
2016-2020	29,736	467,982
2021-2035	0	1,352,997
<b>Total</b>	<b>645,896</b>	<b>3,224,923</b>
Less Interest	0	(1,542,049)
<b>Principal</b>	<b>\$645,896</b>	<b>\$1,682,874</b>



**City of East Cleveland, Ohio**  
*Notes To The General Purpose Financial Statements*  
*For the Year Ended December 31, 2000*

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**Note 13 - Compensated Absences**

The criteria for determining vacation and sick leave liabilities are derived from negotiated agreements and State laws. Employees earn vacation and sick leave at different rates which are also affected by length of service. 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, 2000, the liability for unpaid compensated absences was \$1,751,277 for the entire City.

**Note 14 - Defined Benefit Pension Plans**

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

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

Plan members are required to contribute 8.5 percent of their annual covered salary to fund pension obligations. For calendar year 2000, PERS instituted a temporary employer rate rollback for state and local governments. The 2000 employer contribution rate for the City was 6.54 percent of covered payroll, reduced from 9.35 percent in 1999. Contribution rates are authorized by State statute. The contribution rates are determined actuarially. The City's required contributions to PERS for the years ended December 31, 2000, 1999 and 1998 were \$254,119, \$728,030 and \$524,506 respectively. The full amount has been contributed for 1999 and 1998. 64.42 percent has been contributed for 2000 with the remainder being reported as a liability in the general long-term obligation account group.

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

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

**City of East Cleveland, Ohio**  
*Notes To The General Purpose Financial Statements*  
*For the Year Ended December 31, 2000*

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Police and firefighters are required to contribute 10 percent of their annual covered salary to fund pension obligations and the City is required to contribute 12.25 percent for police and 16.75 percent for firefighters. For 1999, the City contributions were 12.5 percent for police and 17 percent for firefighters. Contributions are authorized by State statute. The City's contributions to the OP&F for police and firefighters were \$268,890 and \$461,599 for the year ended December 31, 2000, \$594,651 and \$449,145 for the year ended December 31, 1999, \$339,982 and \$347,755 for the year ended December 31, 1998. The full amount has been contributed for 1999 and 1998. 70.89 percent and 87.77 percent, respectively, have been contributed for 2000 with the remainder being reported as a liability in the general long-term obligations account group.

In addition to the current contribution, the City pays installments on the accrued liability incurred when the State of Ohio established the statewide pension system for police and firefighters in 1967. As of December 31, 2000, the unfunded liability of the City was \$1,682,874, 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 15 - Postemployment Benefits**

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

The Public Employees Retirement System of Ohio (PERS) provides postretirement health care coverage to age and service retirees with ten or more years of qualifying Ohio service credit. Health care coverage for disability recipients is and primary survivor recipients is available. The health care coverage provided by the retirement system is considered an Other Postemployment Benefit as described in GASB Statement No. 12. A portion of each employer's contribution to PERS is set aside for the funding of postretirement health care based on authority granted by State statute. The 2000 employer contribution rate was 10.84 percent of covered payroll; 4.30 percent was the portion that was used to fund health care for 2000. For 1999, the contribution rate was 13.55 percent of covered payroll; 4.20 percent was the portion that was used to fund health care.

Benefits are advance-funded using the entry age normal cost method. Significant actuarial assumptions, based on PERS's latest actuarial review performed as of December 31, 1999, include a rate of return on investments of 7.75 percent, an annual increase in active employee total payroll of 4.75 percent compounded annually (assuming no change in the number of active employees) and an additional increase in total payroll of between .54 percent and 5.1 percent based on additional annual pay increases. Health care premiums were assumed to increase 4.75 percent annually.

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

The number of active contributing participants was 401,339. The City's actual contributions for 2000 which were used to fund postemployment benefits were \$167,081. The actual contribution and the actuarially required contribution amounts are the same. PERS's net assets available for payment of benefits at December 31, 2000, (the latest information available) were \$10,805.5 million. The actuarially accrued liability and the unfunded actuarial accrued liability were \$12,473.6 million and \$1,668.1 million, respectively.

**City of East Cleveland, Ohio**  
*Notes To The General Purpose Financial Statements*  
*For the Year Ended December 31, 2000*

For 2000, PERS elected to return to an actuarially pre-funded type of disclosure because it is a better presentation of PERS's actual funding methodology. Since 1997, disclosures had been based on a pay-as-you-go funding basis.

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

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

The health care coverage provided by the retirement system is considered an Other Postemployment Benefit (OPEB) as described in GASB Statement No. 12. The Ohio Revised Code provides the authority allowing the Ohio Police and Fire Pension Fund's board of trustees to provide health care coverage and states that health care cost paid from the Ohio Police and Fire Pension Fund shall be included in the employer's contribution rate. Health care funding and accounting is on a pay-as-you-go basis. The total police employer contribution is 19.5 percent of covered payroll and the total firefighter employer contribution rate is 24 percent of covered payroll, of which 7.25 percent of covered payroll was applied to the postemployment health care program during 2000. For 1999, the percent used to fund healthcare was 7 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 2000 that were used to fund post employment benefits were \$159,139 for police and \$199,797 for fire. The OP&F total health care expenses for the year ending December 31, 1999, (the latest information available) were \$95,004,633, which was net of member contributions of \$5,518,098. The number of OP&F participants eligible to receive health care benefits as of December 31, 1999, was 12,467 for police and 9,807 for firefighters.

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

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

	Water	Sewer	Total
Operating Revenues	\$4,865,278	\$4,168,111	\$9,033,389
Depreciation Expense	335,730	574	336,304
Operating Loss	(311,145)	(222,119)	(533,264)
Operating Transfer In	1,167,585	728,752	1,896,337
Operating Transfer Out	0	(367,000)	(367,000)
Non-Operating Revenues	11,406	11,872	23,278
Net Income	867,846	151,505	1,019,351
Fixed Asset Additions	4,554	2,867	7,421
Net Working Capital	(112,067)	47,648	(64,419)
Total Assets	8,525,683	1,421,135	9,946,818
Total Equity	7,049,462	50,086	7,099,548
Encumbrances at December 31, 2000	28,411	12,676	41,087

**City of East Cleveland, Ohio**  
*Notes To The General Purpose Financial Statements*  
*For the Year Ended December 31, 2000*

**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 2000, the City contracted with several companies for other types of insurance as follows:

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

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

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

The City has settled various cases arising from general liability and motor vehicle claims. The claims liability of \$25,000 relates to the outstanding claims liability from general liability and motor vehicle claims settlements at December 31, 2000.

The City manages the hospital/medical, prescription drug and vision benefits for its employees on a self-insured basis. Payments are made from the fund from which the employee is paid. Rates for 2000 ranged from \$255 to \$558 per month for single and family coverage depending on the bargaining unit of the employee. The Plan Administrator for the City determines these rates. Benefit Services, Incorporated, the third party administrator, processes and pays the claims. An excess coverage insurance (stop loss) policy covers claims in excess of \$50,000 per employee and an aggregate of \$1,000,000 per year. Claims did not exceed the \$50,000 per employee, nor did it exceed the aggregate.

The health insurance claims liability of \$124,271 is reported in various funds at December 31, 2000, was estimated by the third party administrator and is based on the requirements of Governmental Accounting Standards Board Statement No. 10 which requires that a liability for unpaid claims costs, including estimates of costs relating to incurred but not reported claims, be reported. The estimate was not affected by incremental claims adjustments expenses and does not include other allocated or unallocated claim adjustment expenses. Changes in the fund's claims liability amount in 1998, 1999, and 2000 were:

	Balance at Beginning of Year	Current Year Claims	Claim Payments	Balance at End of Year
1998	\$136,004	\$1,301,877	\$1,352,987	\$84,894
1999	84,994	1,223,821	1,197,223	111,592
2000	111,592	1,054,466	1,041,787	124,271

**City of East Cleveland, Ohio**  
*Notes To The General Purpose Financial Statements*  
*For the Year Ended December 31, 2000*

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**Note 18- Interfund Transactions**

Interfund balances at December 31, 2000, consist of the following interfund receivables and payables:

	Receivable	Payable
General Fund	\$3,099,125	\$0
Special Revenue Funds		
Older Americans	0	197,578
Recycling Grant	0	15,820
Community Development	0	659,678
Engineering and Building	0	1,509
Summer Day Camp	0	8,710
Special Purpose Grant	0	67,447
Victims of Crime Act	0	1,734
Block Grant	0	11,163
<i>Total Special Revenue</i>	0	963,639
Enterprise Funds		
Water	0	800,180
Sewer	0	1,335,306
<i>Total Enterprise</i>	0	2,135,486
Totals	\$3,099,125	\$3,099,125

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**CITY OF EAST CLEVELAND  
CUYAHOGA COUNTY  
SCHEDULE OF FEDERAL AWARDS EXPENDITURES  
FOR THE YEAR ENDED DECEMBER 31, 2000**

Federal Grantor/ Pass-Through Grantor/ Program Title	Project/Grant Number	CFDA Number	Receipts	Disbursements
<b>U.S. Department of Housing and Urban Development</b>				
<i>Direct Programs:</i>				
Community Development Block Grant/Entitlement Grant 98	B98MC3-90030	14.218	\$955,845	\$955,845
Community Development Block Grant/Entitlement Grant 99	B99MC3-90030	14.218	<u>658,121</u>	<u>658,121</u>
Total Community Development Block Grant/Entitlement Grant			1,613,966	1,613,966
HOME Investment Partnerships Program 92	M92MC3-90200	14.239	0	4,472
HOME Investment Partnerships Program 93	M93MC3-90200	14.239	7,719	256
HOME Investment Partnerships Program 94	M95MC3-90200	14.239	27,567	57,125
HOME Investment Partnerships Program 96	M96MC3-90200	14.239	91,220	94,079
HOME Investment Partnerships Program 97	M97MC3-90200	14.239	256,403	256,403
HOME Investment Partnerships Program 98	M98MC3-90200	14.239	383,584	335,367
HOME Investment Partnerships Program 99	M99MC3-90200	14.239	<u>23,221</u>	<u>23,231</u>
Total HOME Investment Partnerships Program			789,714	770,933
<i>Passed Through the Ohio Department of Development:</i>				
Special Purpose Grant	OH125PG33	14.xxx	<u>48,980</u>	<u>48,980</u>
Total Special Purpose Grant			48,980	48,980
Total U.S. Department of Housing and Urban Development			<u><b>\$2,452,660</b></u>	<u><b>\$2,433,879</b></u>
<b>U.S. Department of Health and Human Services</b>				
<i>Passed Through the Western Reserve Area Agency on Aging:</i>				
<b>Aging Cluster:</b>				
Title III, Part B_Grants for Supportive Services and Senior Centers 99	N/A	93.044	12,764	12,764
Title III, Part B_Grants for Supportive Services and Senior Centers 00	N/A	93.044	<u>136,956</u>	<u>136,956</u>
Total Title III, Part B			149,720	149,720
Title III, Part C_Nutrition 99	N/A	93.045	2,577	2,577
Title III, Part C_Nutrition 00	N/A	93.045	<u>25,108</u>	<u>25,108</u>
Total Title III, Part C			27,685	27,685
Total Aging Cluster			177,405	177,405
Total U.S. Department of Health and Human Services			<u><b>\$177,405</b></u>	<u><b>\$177,405</b></u>
<b>U.S. Department of Justice</b>				
<i>Direct Programs:</i>				
Public Safety Partnership and Community Policing Grants (C.O.P.S. More)	1997CMWX0963	16.710	14,000	14,000
Public Safety Partnership and Community Policing Grants (C.O.P.S. Universal)	1995CFWX2398	16.710	<u>18,000</u>	<u>18,000</u>
Total C.O.P.S. Grants - Direct Programs			32,000	32,000
<i>Passed Through the Ohio Attorney General's Office:</i>				
Crime Victim Assistance (V.O.C.A.)	18-176	16.575	<u>51,412</u>	<u>51,412</u>
Total Crime Victim Assistance (V.O.C.A.)			51,412	51,412
Total U.S. Department of Justice			<u><b>\$83,412</b></u>	<u><b>\$83,412</b></u>
<b>TOTAL FEDERAL ASSISTANCE</b>			<u><b>\$2,713,477</b></u>	<u><b>\$2,694,696</b></u>

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

**CITY OF EAST CLEVELAND  
CUYAHOGA COUNTY**

**NOTES TO SCHEDULE OF FEDERAL AWARDS EXPENDITURES  
FOR THE YEAR ENDED DECEMBER 31, 2000**

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





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

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

We have audited the financial statements of the City of East Cleveland, Cuyahoga County, Ohio, (the City) as of and for the year ended December 31, 2000, and have issued our report thereon dated August 27, 2001. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

**Compliance**

As part of obtaining reasonable assurance about whether the City's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance that are required to be reported under *Government Auditing Standards* which are described in the accompanying schedule of findings and questioned costs as items 2000-20818-001 to 2000-20818-004. We also noted certain immaterial instances of noncompliance that we have reported to management of the City in a separate letter dated August 27, 2001.

**Internal Control Over Financial Reporting**

In planning and performing our audit we considered the City's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the general-purpose financial statements and not to provide assurance on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operations that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgement, could adversely affect the City's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in the accompanying schedule of findings and questioned costs as items 2000-20818-005 to 2000-20818-007.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. We considered the reportable conditions described above, items 2000-20818-005 to 2000-20818-007, to be material weaknesses. We also noted other matters involving the internal control over financial reporting that do not require inclusion in this report, that we have reported to management of the City in a separate letter dated August 27, 2001.

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

**Jim Petro**  
Auditor of State

August 27, 2001



STATE OF OHIO  
OFFICE OF THE AUDITOR

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

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

**Compliance**

We have audited the compliance of the City of East Cleveland, Cuyahoga County, Ohio, (the City) with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended December 31, 2000. The City's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. 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 Controller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance occurred with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program. An audit includes examining, on a test basis, evidence about the City's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the City's compliance with those requirements.

As described in items 2000-20818-008, 2000-20818-009, 2000-20818-011 and 2000-20818-012 in the accompanying schedule of findings and questioned costs, the City did not comply with requirements regarding allowable costs/cost principles, procurement and cash management that are applicable to its Community Development Block Grant and HOME programs. Compliance with such requirements is necessary, in our opinion, for the City to comply with requirements applicable to those programs.

In our opinion, except for the noncompliance described in the preceding paragraph, the City complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended December 31, 2000. We also noted certain instances of noncompliance that do not require inclusion in this report that we have reported to management of the City in a separate letter dated August 27, 2001.

### **Internal Control Over Compliance**

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

We noted a matter involving the internal control over compliance and its operation that we consider to be a reportable condition. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over compliance that, in our judgment, could adversely affect the City's ability to administer a major federal program in accordance with applicable requirements of laws, regulations, contracts and grants. A reportable condition is described in the accompanying schedule of findings and questioned costs as item 2000-20818-010.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe the reportable condition described above is a material weakness. We also noted other matters involving the internal control over federal compliance that do not require inclusion in this report that we have reported to the management of the City in a separate letter dated August 27, 2001.

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

**Jim Petro**  
Auditor of State

August 27, 2001

CITY OF EAST CLEVELAND  
 CUYAHOGA COUNTY  
 DECEMBER 31, 2000

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

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

**CITY OF EAST CLEVELAND  
CUYAHOGA COUNTY  
DECEMBER 31, 2000  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
(Continued)**

<b>2. FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS</b>
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The comments appearing with an asterisk (\*) denotes a comment that was previously brought to management's attention for which corrective action has not been taken.

**MATERIAL CITATIONS**

Finding Number	2000-20818-001 *
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Ohio Rev. Code § 5705.41(B) and 5705.41(D), prohibit a subdivision from making an expenditure unless it has been properly appropriated. The following funds had expenditures plus encumbrances in excess of appropriations at the legal level of control:

<u>Fund</u>	<u>Appropriations</u>	<u>Expenditures Plus Encumbrances</u>	<u>Excess</u>
CSX Award - Capital Outlay	\$298,246	\$510,329	(\$212,083)
Water Fund - Contractual Services	4,267,144	4,607,348	(340,204)
Sewer Fund - Contractual Services	3,687,899	4,300,418	(612,519)

Finding Number	2000-20818-002 *
----------------	------------------

Ohio Rev. Code § 5705.10 provides that money paid into any fund shall be used for only the purposes for which such fund is established. As of December 31, 2000, the following funds had significant negative cash fund balances:

<u>Fund</u>	<u>Amount</u>
Water	(\$800,180)
Sewer	(1,335,306)

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

Finding Number	2000-20818-003 *
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Ohio Rev. Code § 1901.31(E), requires the clerk of a municipal court to prepare and maintain a court docket. Further, it states: "In the docket, the clerk shall enter, at the time of the commencement of an action, the names of the parties in full, the names of the counsel, and the nature of the proceedings. Under proper dates, he shall note the filing of the complaint, issuing of summons or other process, returns, and any subsequent pleadings. He shall also enter all reports, verdicts, orders, judgments, and proceedings of the court, clearly specifying the relief granted or orders made in each action." The clerk of the Municipal Court does not maintain a court docket and we recommended that she take immediate action to correct this situation.

In December 2000, the Court began maintaining a court docket.

**CITY OF EAST CLEVELAND  
 CUYAHOGA COUNTY  
 DECEMBER 31, 2000  
 SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
 (Continued)**

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

(Continued)

Finding Number	2000-20818-004 *
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Ohio Revised Code § 5705.41(D) states 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.

This section also provides two exceptions to the above requirements:

- If no certificate is furnished as required, upon receipt of the fiscal officer's certificate that a sufficient sum was appropriated and free of any previous encumbrances, City Council may authorize the issuance of a warrant in payment of the amount due upon such contract or order by resolution within 30 days from the receipt of such certificate (a then and now certificate), if such expenditure is otherwise valid.
- If the amount involved is less than one thousand dollars, the fiscal officer may authorize it to be paid without the affirmation of City Council.

A test of expenditures disclosed that 45% of the purchase orders were dated after the invoice date and the instances noted did not fall within any exceptions to this Section. As a result, the City did not record a reservation of the applicable appropriation (encumber) at the time a commitment for the expenditure of funds was made and encumbrances were understated at year end. Failure to encumber commitments could result in deficit fund balances.

Finding Number	2000-20818-005 *
----------------	------------------

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

A review of the cash cycle disclosed the City's general and municipal court bank accounts were not reconciled during 2000. The court's accounts are clearing accounts that should pay all monthly collections after the end of the month, however, thousands of dollars remained in the accounts because of the unreliability of the records. As a result, the City retained the services of the Auditor of State's Local Government Services Division (LGS) to reconcile the accounts. The results disclosed that hundreds of significant adjustments were necessary and the adjusted bank balance exceeded the adjusted book balance by a net amount of \$86,033 for the general account. An adjustment to the financial statements was made to reflect this matter. Once the court's bank accounts were reconciled the proper distributions were made.

**CITY OF EAST CLEVELAND  
 CUYAHOGA COUNTY  
 DECEMBER 31, 2000  
 SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
 (Continued)**

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

(Continued)

Finding Number	2000-20818-005 * (Continued)
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In addition, the City utilizes a payroll clearing account to segregate payroll activity. Ideally, this account should zero out on a regular basis as payroll checks are cashed. However, the City did not reconcile its payroll clearing account during 2000. As a result, LGS reconciled the account and generated a correct outstanding check list.

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

Finding Number	2000-20818-006 *
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The City has instituted control procedures to ensure that recorded payroll transactions are for the performance of services and are approved. The City utilizes time cards and leave forms to document the performance of services and use of leave time. The signatures of the employee, the supervisor and the payroll administrator attest to the accuracy of the time charged and leave used. In addition, the department head is required to sign the check pick-up roster when distributing each department's checks.

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

- For 38% of the time cards tested the employee did not sign the timecard;
- For 28% of the time cards the department head did not sign the timecard indicating approval of the hours charged;
- For 58% of the of the time cards tested when the employee charged overtime, the department head did not sign the timecard indicating approval of the hours charged;
- In all instances the payroll administrator did not make a notation on the timecard indicating the hours charged were mathematically correct;
- Eighty-Eight percent of the employees that used leave time did not complete a leave form; and
- Even though the check pick-up rosters tested were properly signed by the department head, 40% of the check pick-up rosters could not be located.

We recommend the City adhere to its control procedures for processing payroll. This would include the review and approval of employee hours, by the supervisor and by the payroll administrator. Leave forms should be used to document the use of leave time and the check pick-up roster should be retained and filed with each payroll batch.



**CITY OF EAST CLEVELAND  
 CUYAHOGA COUNTY  
 DECEMBER 31, 2000  
 SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
 (Continued)**

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

Finding Number	2000-20818-007 *
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A review of the Municipal Court disclosed the following:

- A test of Court cases disclosed that 33% of the case files could not be located. Furthermore, record keeping was inaccurate and inconsistent, and there appears to be minimal progress on the part of the Judge or Clerk of Courts to develop written procedures, instructions, and assignment of duties to prevent misunderstandings, errors, inefficient or wasted effort, duplicated or omitted procedures, and other situations that can result in inaccurate and/or untimely records.
- The Court does not maintain an accurate cash journal for the Civil, Criminal/Traffic, and Bail Bond accounts because the computer software does not allow integration of data. Thus, there is no record of a cash balance to reconcile to, and no reconciliations were performed by the Court during the year. In the summer of 2000, the Court retained the services of the Auditor of State's - Local Government Services Division (LGS) to reconcile the cash journal to the bank account.
- The Court does not review the open items list of bail bond accounts held regularly to determine the status of the various stale accounts. Sufficient controls to validate the accuracy of open items have not been established. Consequently, LGS reconstructed the open item list for the last three years. As of December 31, 2000, approximately \$307,461 in bond accounts was outstanding and approximately \$202,177 was more than one year old.
- The Court does not prepare an open items list for the Civil account necessary to substantiate the month end cash balance. This leads to errors in the open items lists that are not detected in a timely manner. Again, the Court retained the services of LGS to create an open items list.
- Since the Court does not prepare a court docket, the amount of bond collections could not be verified with the amount established per the City's bond schedule.

Based on these facts, we recommend that:

- The Judge and/or Clerk of Courts develop written procedures for all Court activities. The procedures should be in sufficient detail to provide employees with instructions on performing all Court activities. These procedures should include policies to initiate collection proceedings for delinquent Criminal/Traffic account cases and the processing and collection of outstanding warrants. .
- Reconciliations be performed at the end of each month in order to validate the cash activities of the Civil, Criminal/Traffic, and Bail Bond accounts.
- Due diligence be used in the monitoring of the Court's cash and book activities. Sufficient monitoring procedures should be established and consistently applied to ensure the integrity of individual court accounts and to avoid commingling activities. Monitoring should include, but not be limited to, management's review of case status, accounts receivable, open items lists (including bonds), account reconciliations and the disposition of cases.

**CITY OF EAST CLEVELAND  
CUYAHOGA COUNTY  
DECEMBER 31, 2000  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
(Continued)**

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

(Continued)

Finding Number	2000-20818-007 * (Continued)
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- The Court review and update the open items list for City and State bonds to determine the status of each bail bond deposit. Once the status is determined, the proper steps should be taken by the law department to determine which items may legally be placed in an unclaimed funds account established by the City. Policies should be established that ease the compilation of the list and the list should be updated monthly.
- The Court substantiate the Civil account month-end balance by preparing an open items list of Civil cases pending which constitute the month-end book balance. The list should be updated and prepared at each month-end.
- The criminal court docket be prepared in such a manner to allow verification that amounts charged for bonds adhere to the bond schedule.

**3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS**

Finding Number	2000-20818-008 *
CFDA Title and Number	Community Development Block Grant, CFDA # 14.218
Federal Agency	Department of Housing and Urban Development

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

A test of the time allocation sheets disclosed that 7% were not prepared for employees who work on a federal program and a non federal program, or on more than one federal program award. This causes questions of the validity and allowability of such costs in the manner that they were charged to the various grants.

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

**CITY OF EAST CLEVELAND  
CUYAHOGA COUNTY  
DECEMBER 31, 2000  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
(Continued)**

**3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS**

(Continued)

Finding Number	2000-20818-009 *
CFDA Title and Number	Community Development Block Grant, CFDA # 14.218
Federal Agency	Department of Housing and Urban Development

24 CFR Part 570.206(e) and OMB Circular A-87 state that program administration costs of overall program management coordination is eligible if indirect costs are charged using an accepted cost allocation plan. Community Development Block Grants Compliance Requirements for the recovery of indirect costs state that organizations must prepare cost allocation plans (CAPs) which apply to local governments or indirect cost rate proposals (IDCRPs) in accordance with the guidelines provided in the circulars. 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 2000, 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	2000-20818-010
CFDA Title and Number	Community Development Block Grant, CFDA # 14.218 HOME Program, CFDA # 14.239
Federal Agency	Department of Housing and Urban Development

Since the City's CDBG and HOME federal programs are funded on a reimbursement basis, program costs must be paid with City funds before reimbursement is requested from the federal agency. In order to drawdown grant monies, the City requires that a grant drawdown log sheet be maintained. The log identifies all pertinent information for each expenditure incurred and the corresponding drawdown amount and date.

A review of all drawdowns disclosed the expenditure log could not be located for 18% of CDBG and 12% of HOME drawdowns. Consequently, extensive time was required to reconcile the remaining unsupported drawdowns to the City's expenditure report.

We recommend that all grant drawdown logs be properly maintained and filed.

**CITY OF EAST CLEVELAND  
CUYAHOGA COUNTY  
DECEMBER 31, 2000  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
(Continued)**

**3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS**

(Continued)

Finding Number	2000-20818-011
CFDA Title and Number	Community Development Block Grant, CFDA # 14.218 HOME Program, CFDA # 14.239
Federal Agency	Department of Housing and Urban Development

24 CFR Part 84.22(e), requires recipients to follow the reimbursement method of cash management when they are unable to follow the requirements prescribed for the advance method. HUD requires the City to 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.

Finding Number	2000-20818-012
CFDA Title and Number	Community Development Block Grant, CFDA # 14.218
Federal Agency	Department of Housing and Urban Development

24 CFR Part 85.36(b), states that "Grantees and subgrantees will use their own procurement procedures which reflect State and local laws and regulations, provided that the procurements conform to applicable Federal law and the standards identified in this section."

Section 72, East Cleveland City Charter, provides that any expenditure exceeding \$15,000 is subject to competitive bidding procedures. The procedures include awarding the contract to the lowest and best bidder after an advertisement for not less than two nor more than four consecutive weeks in a local newspaper.

In May 1999, the City followed competitive bidding procedures and awarded the 1999 street resurfacing contract to Infinity Paving for \$191,995. On April 18, 2000, City Council passed Ordinance 61-00, amending the original contract to include an additional \$54,420 for resurfacing a portion of Terrace Road. However, the resurfacing of Terrace Road was not publicly advertised and was treated as a change order to the original contract. As a result, the City did not comply with Circular A-102 procurement provisions and City Charter Section 72.

Based on the foregoing facts we are questioning costs from this program of \$54,420.

**CITY OF EAST CLEVELAND  
CUYAHOGA COUNTY  
DECEMBER 31, 2000**

**SCHEDULE OF PRIOR AUDIT FINDINGS**

Finding Number	Finding Summary	Fully Corrected	Not corrected, partially corrected, different corrective action taken; finding no longer valid; <b>Explain</b>
1999-20818-001	Fund appropriations were in excess of total estimated resources	Yes	
1999-20818-002	Fund expenditures plus encumbrances were in excess of appropriations	No	No change
1999-20818-003	Finance director did not certify the availability of funds as required by State law.	No	No change
1999-20818-004	Court dockets were not maintained as required by State law.	No	The Court began using a docket in December 2000
1999-20818-005	Two funds had significant cash deficits	No	No change
1999-20818-006	Bank accounts were not reconciled.	No	No change
1999-20818-007	Key supervisory controls over payroll were not working	No	No change
1999-20818-008	Improving controls for municipal court operations.	No	Of the numerous recommendations only two were implemented
1999-20818-009	City charges indirect costs to the grant but has not prepared either a cost allocation plan or indirect cost rate proposal.	No	No change
1999-20818-010	City is required to submit the quarterly Federal Cash Transaction Report, SF-272, no later than 15 working days following the end of the quarter. The City did not file the quarterly SF-272 reports for the year ended December 31, 2000 until April 2000	No	Partially corrected as reports were submitted only 2 to 3 months late.
1999-20818-011	Time allocation sheets were not prepared on a consistent basis for employees who work on a federal program and a non federal program, or on more than one federal program award.	No	No change

**CITY OF EAST CLEVELAND  
CUYAHOGA COUNTY  
DECEMBER 31, 2000**

**SCHEDULE OF PRIOR AUDIT FINDINGS  
(Continued)**

1999-20818-012	Federal procedures requiring the purchase order be signed by the mayor and finance director and the request for payment form be signed by the director of community development and the financial analyst were not being followed.	No	There was significant improvement in the approval process.
1999-20818-013	The City's procurement procedures do not comply with Federal law in that personal services expenditures greater than \$1,000 are not subject to competitive bidding requirements.	No	
1999-20818-014	The City had not submitted its annual performance report to HUD for 1999, as of January 26, 2001. It is due 90 days after year end.	No	The City submitted its annual performance report two months after the required deadline
1999-20818-015	Numerous files/applications for the City's federal paint program were either missing or incomplete. This prevented the City from charging several thousand dollars to the federal program.	Yes	



STATE OF OHIO  
OFFICE OF THE AUDITOR  

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JIM PETRO, AUDITOR OF STATE

88 East Broad Street  
P.O. Box 1140  
Columbus, Ohio 43216-1140  
Telephone 614-466-4514  
800-282-0370  
Facsimile 614-466-4490

**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  
OCTOBER 4, 2001**