



JIM PETRO
AUDITOR OF STATE

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, 1999, 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 generally accepted auditing standards 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, 1999, 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 accounting principles.

In accordance with *Government Auditing Standards*, we have also issued our report dated February 26, 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.

Our audit was performed for the purpose of forming 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

February 26, 2001

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City of East Cleveland
Cuyahoga County
Combined Balance Sheet
All Fund Types and Account Groups
December 31, 1999

	Governmental Fund		
	General	Special Revenue	Debt Service
<i>Assets and Other Debits</i>			
Assets			
Equity in Pooled Cash and Cash Equivalents	\$787,038	\$2,380,709	\$18,770
Cash and Cash Equivalents in Segregated Accounts	0	106,753	0
Cash and Cash Equivalents with Fiscal and Escrow Agents	0	0	3,282
Receivables:			
Taxes	2,921,007	107,872	0
Accounts	54,174	400	0
Interfund	1,968,389	0	0
Due from Other Funds	46,408	4,888	0
Intergovernmental	278,112	81,315	0
Loans	0	35,943	0
Materials and Supplies Inventory	12,873	0	0
Prepaid Items	6,726	0	0
Fixed Assets (Net, where applicable, of Accumulated Depreciation)	0	0	0
Other Debits			
Amount to be Provided from General Government Resources	0	0	0
<i>Total Assets and Other Debits</i>	\$6,074,727	\$2,717,880	\$22,052

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			
\$1,015,933	\$0	\$594,996	\$0	\$0	\$4,797,446
0	0	241,477	0	0	348,230
0	0	0	0	0	3,282
359,666	0	0	0	0	3,388,545
0	1,737,262	0	0	0	1,791,836
0	0	0	0	0	1,968,389
0	0	0	0	0	51,296
0	0	0	0	0	359,427
0	0	0	0	0	35,943
0	0	0	0	0	12,873
0	0	0	0	0	6,726
0	7,578,055	0	8,952,071	0	16,530,126
0	0	0	0	3,780,288	3,780,288
<u>\$1,375,599</u>	<u>\$9,315,317</u>	<u>\$836,473</u>	<u>\$8,952,071</u>	<u>\$3,780,288</u>	<u>\$33,074,407</u>

(continued)

City of East Cleveland
Cuyahoga County
Combined Balance Sheet
All Fund Types and Account Groups (continued)
December 31, 1999

	Governmental Fund		
	General	Special Revenue	Debt Service
<i>Liabilities, Fund Equity and Other Credits</i>			
Liabilities			
Accounts Payable	\$360,432	\$59,832	\$0
Interfund Payable	0	222,578	0
Accrued Wages	293,296	38,951	0
Compensated Absences Payable	65,392	2,100	0
Claims Payable	84,532	22,968	0
Due to Other Funds	0	0	0
Intergovernmental Payable	109,847	13,723	0
Deferred Revenue	1,816,258	107,872	0
Undistributed Monies	0	0	0
Deposits Held and Due to Others	0	0	0
Capital Leases Payable	0	0	0
OWDA Loans Payable	0	0	0
Contingent Liabilities	0	0	0
Police and Fire Liability	0	0	0
	2,729,757	468,024	0
<i>Total Liabilities</i>			
Fund Equity and Other Credits			
Investment in General Fixed Assets	0	0	0
Contributed Capital	0	0	0
Retained Earnings:			
Unreserved (Deficit)	0	0	0
Fund Balance:			
Reserved for Encumbrances	38,146	99,792	0
Reserved for Inventory	12,873	0	0
Reserved for Loans	0	35,943	0
Unreserved, Undesignated	3,293,951	2,114,121	22,052
	3,344,970	2,249,856	22,052
<i>Total Fund Equity and Other Credits</i>			
	\$6,074,727	\$2,717,880	\$22,052
<i>Total Liabilities, Fund Equity and Other Credits</i>			

See accompanying notes to the general purpose financial statements

Types	Proprietary Fund Type	Fiduciary Fund Types	Account Groups		Totals (Memorandum Only)
			General Fixed Assets	General Long-Term Obligations	
Capital Projects	Enterprise	Agency			
\$0	\$91,678	\$0	\$0	\$0	\$511,942
0	1,745,811	0	0	0	1,968,389
0	22,295	0	0	0	354,542
0	21,946	0	0	1,128,559	1,217,997
0	4,092	0	0	0	111,592
0	0	51,296	0	0	51,296
0	604,674	4,417	0	355,793	1,088,454
359,666	0	0	0	0	2,283,796
0	0	190,181	0	0	190,181
0	0	590,579	0	0	590,579
0	0	0	0	559,171	559,171
0	659,419	0	0	7,667	667,086
0	0	0	0	25,000	25,000
0	0	0	0	1,704,098	1,704,098
<u>359,666</u>	<u>3,149,915</u>	<u>836,473</u>	<u>0</u>	<u>3,780,288</u>	<u>11,324,123</u>
0	0	0	8,952,071	0	8,952,071
0	7,832,733	0	0	0	7,832,733
0	(1,667,331)	0	0	0	(1,667,331)
71,082	0	0	0	0	209,020
0	0	0	0	0	12,873
0	0	0	0	0	35,943
944,851	0	0	0	0	6,374,975
<u>1,015,933</u>	<u>6,165,402</u>	<u>0</u>	<u>8,952,071</u>	<u>0</u>	<u>21,750,284</u>
<u>\$1,375,599</u>	<u>\$9,315,317</u>	<u>\$836,473</u>	<u>\$8,952,071</u>	<u>\$3,780,288</u>	<u>\$33,074,407</u>

City of East Cleveland
Cuyahoga County
*Combined Statement of Revenues, Expenditures
and Changes in Fund Balances*
All Governmental Fund Types
For the Year Ended December 31, 1999

	<u>Governmental Fund</u>	
	<u>General</u>	<u>Special Revenue</u>
Revenues		
Municipal Income Tax	\$7,890,513	\$0
Property and Other Taxes	1,647,611	97,868
Charges for Services	81,372	32,988
Licenses and Permits	570,851	0
Fines and Forfeitures	734,356	108,094
Intergovernmental	4,436,944	3,405,332
Special Assessments	384,208	0
Interest	192,815	0
Other	253,131	60,914
<i>Total Revenues</i>	<u>16,191,801</u>	<u>3,705,196</u>
Expenditures		
Current:		
General Government	4,534,208	838,822
Security of Persons and Property	7,766,120	283,177
Transportation	308,960	796,399
Community Environment	222,786	909,592
Basic Utility Services	1,512,873	0
Leisure Time Activities	294,363	0
Capital Outlay	4,594	0
Debt Service:		
Principal Retirement	3,764	94,921
Interest and Fiscal Charges	32	102,516
<i>Total Expenditures</i>	<u>14,647,700</u>	<u>3,025,427</u>
<i>Excess of Revenues Over (Under) Expenditures</i>	<u>1,544,101</u>	<u>679,769</u>
Other Financing Sources (Uses)		
Sale of Fixed Assets	10,712	0
Operating Transfers In	942	638,987
Operating Transfers Out	(768,843)	(60,073)
<i>Total Other Sources (Uses)</i>	<u>(757,189)</u>	<u>578,914</u>
<i>Excess of Revenues and Other Financing Sources Over Expenditures and Other Financing Uses</i>	786,912	1,258,683
<i>Fund Balances Beginning of Year</i>	2,591,557	991,173
Decrease in Reserve for Inventory	(33,499)	0
<i>Fund Balances End of Year</i>	<u>\$3,344,970</u>	<u>\$2,249,856</u>

See accompanying notes to the general purpose financial statements

Types		Totals (Memorandum Only)
Debt Service	Capital Projects	
\$0	\$0	\$7,890,513
0	242,757	1,988,236
0	0	114,360
0	0	570,851
0	0	842,450
0	41,850	7,884,126
0	0	384,208
199	44,416	237,430
0	123,438	437,483
<u>199</u>	<u>452,461</u>	<u>20,349,657</u>
0	0	5,373,030
0	0	8,049,297
0	0	1,105,359
0	0	1,132,378
0	0	1,512,873
0	0	294,363
0	431,342	435,936
511	56,486	155,682
0	3,954	106,502
<u>511</u>	<u>491,782</u>	<u>18,165,420</u>
<u>(312)</u>	<u>(39,321)</u>	<u>2,184,237</u>
0	0	10,712
511	88,662	729,102
0	(186)	(829,102)
<u>511</u>	<u>88,476</u>	<u>(89,288)</u>
199	49,155	2,094,949
21,853	966,778	4,571,361
0	0	(33,499)
<u>\$22,052</u>	<u>\$1,015,933</u>	<u>\$6,632,811</u>

City of East Cleveland
Cuyahoga County
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, 1999

	General Fund		Variance Favorable (Unfavorable)
	Revised Budget	Actual	
Revenues			
Municipal Income Tax	\$7,134,388	\$7,134,388	\$0
Property and Other Taxes	1,679,227	1,679,227	0
Charges for Services	76,524	76,524	0
Licenses and Permits	785,434	785,434	0
Fines and Forfeitures	687,813	687,813	0
Intergovernmental	4,207,202	4,207,202	0
Special Assessments	384,208	384,208	0
Interest	192,815	192,815	0
Other	252,268	252,268	0
<i>Total Revenues</i>	<u>15,399,879</u>	<u>15,399,879</u>	<u>0</u>
Expenditures			
Current:			
General Government	4,464,616	4,488,375	(23,759)
Security of Persons and Property	8,071,657	7,915,413	156,244
Transportation	295,766	299,487	(3,721)
Community Environment	257,525	229,906	27,619
Basic Utility Services	1,474,215	1,550,488	(76,273)
Leisure Time Activities	294,051	302,222	(8,171)
Capital Outlay	0	0	0
Principal Retirement	0	0	0
<i>Total Expenditures</i>	<u>14,857,830</u>	<u>14,785,891</u>	<u>71,939</u>
<i>Excess of Revenues Over (Under) Expenditures</i>	<u>542,049</u>	<u>613,988</u>	<u>71,939</u>
Other Financing Sources (Uses)			
Sale of Fixed Assets	10,712	10,712	0
Advances In	0	0	0
Advances Out	0	(222,578)	(222,578)
Operating Transfers In	942	942	0
Operating Transfers Out	(660,825)	(768,843)	(108,018)
<i>Total Other Sources (Uses)</i>	<u>(649,171)</u>	<u>(979,767)</u>	<u>(330,596)</u>
<i>Excess of Revenues and Other Financing Sources Over (Under) Expenditures and Other Financing Uses</i>	<u>(107,122)</u>	<u>(365,779)</u>	<u>(258,657)</u>
<i>Fund Balances Beginning of Year</i>	2,199,871	2,199,871	0
Unexpended Prior Year Encumbrances	<u>411,294</u>	<u>411,294</u>	<u>0</u>
<i>Fund Balances (Deficit) End of Year</i>	<u><u>\$2,504,043</u></u>	<u><u>\$2,245,386</u></u>	<u><u>(\$258,657)</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
97,868	97,868	0	0	0	0
32,588	32,588	0	0	0	0
0	0	0	0	0	0
101,701	101,701	0	0	0	0
3,500,060	3,179,574	(320,486)	0	0	0
0	0	0	0	0	0
0	0	0	199	199	0
29,615	27,863	(1,752)	0	0	0
<u>3,761,832</u>	<u>3,439,594</u>	<u>(322,238)</u>	<u>199</u>	<u>199</u>	<u>0</u>
3,040,403	1,083,271	1,957,132	0	0	0
785,463	375,281	410,182	0	0	0
537,563	494,927	42,636	0	0	0
6,734,393	909,648	5,824,745	0	0	0
0	0	0	0	0	0
0	0	0	0	0	0
29,346	8,899	20,447	0	0	0
0	0	0	719	511	208
<u>11,127,168</u>	<u>2,872,026</u>	<u>8,255,142</u>	<u>719</u>	<u>511</u>	<u>208</u>
<u>(7,365,336)</u>	<u>567,568</u>	<u>7,932,904</u>	<u>(520)</u>	<u>(312)</u>	<u>208</u>
0	0	0	0	0	0
222,578	222,578	0	0	0	0
0	0	0	0	0	0
580,918	638,987	58,069	511	511	0
(60,077)	(60,073)	4	0	0	0
<u>743,419</u>	<u>801,492</u>	<u>58,073</u>	<u>511</u>	<u>511</u>	<u>0</u>
(6,621,917)	1,369,060	7,990,977	(9)	199	208
524,533	524,533	0	18,571	18,571	0
340,750	340,750	0	0	0	0
<u>(\$5,756,634)</u>	<u>\$2,234,343</u>	<u>\$7,990,977</u>	<u>\$18,562</u>	<u>\$18,770</u>	<u>\$208</u>

(continued)

City of East Cleveland
Cuyahoga County
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, 1999

	Capital Projects Funds		
	Revised Budget	Actual	Variance Favorable (Unfavorable)
Revenues			
Municipal Income Tax	\$0	\$0	\$0
Property and Other Taxes	242,756	242,757	1
Charges for Services	0	0	0
Licenses and Permits	0	0	0
Fines and Forfeitures	0	0	0
Intergovernmental	43,600	43,600	0
Special Assessments	0	0	0
Interest	44,416	44,416	0
Other	123,434	123,438	4
<i>Total Revenues</i>	<u>454,206</u>	<u>454,211</u>	<u>5</u>
Expenditures			
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	1,013,083	578,225	434,858
Principal Retirement	0	0	0
<i>Total Expenditures</i>	<u>1,013,083</u>	<u>578,225</u>	<u>434,858</u>
<i>Excess of Revenues Over (Under) Expenditures</i>	<u>(558,877)</u>	<u>(124,014)</u>	<u>434,863</u>
Other Financing Sources (Uses)			
Sale of Fixed Assets	0	0	0
Advances In	0	0	0
Advances Out	0	0	0
Operating Transfers In	88,669	88,662	(7)
Operating Transfers Out	(186)	(186)	0
<i>Total Other Sources (Uses)</i>	<u>88,483</u>	<u>88,476</u>	<u>(7)</u>
<i>Excess of Revenues and Other Financing Sources Over (Under) Expenditures and Other Financing Uses</i>	<u>(470,394)</u>	<u>(35,538)</u>	<u>434,856</u>
<i>Fund Balances Beginning of Year</i>	769,688	769,688	0
Unexpended Prior Year Encumbrances	<u>209,558</u>	<u>209,558</u>	<u>0</u>
<i>Fund Balances (Deficit) End of Year</i>	<u><u>\$508,852</u></u>	<u><u>\$943,708</u></u>	<u><u>\$434,856</u></u>

See accompanying notes to the general purpose financial statements

Totals (Memorandum Only)

Revised Budget	Actual	Variance Favorable (Unfavorable)
\$7,134,388	\$7,134,388	\$0
2,019,851	2,019,852	1
109,112	109,112	0
785,434	785,434	0
789,514	789,514	0
7,750,862	7,430,376	(320,486)
384,208	384,208	0
237,430	237,430	0
405,317	403,569	(1,748)
<u>19,616,116</u>	<u>19,293,883</u>	<u>(322,233)</u>
7,505,019	5,571,646	1,933,373
8,857,120	8,290,694	566,426
833,329	794,414	38,915
6,991,918	1,139,554	5,852,364
1,474,215	1,550,488	(76,273)
294,051	302,222	(8,171)
1,042,429	587,124	455,305
719	511	208
<u>26,998,800</u>	<u>18,236,653</u>	<u>8,762,147</u>
<u>(7,382,684)</u>	<u>1,057,230</u>	<u>8,439,914</u>
10,712	10,712	0
222,578	222,578	0
0	(222,578)	(222,578)
671,040	729,102	58,062
<u>(721,088)</u>	<u>(829,102)</u>	<u>(108,014)</u>
<u>183,242</u>	<u>(89,288)</u>	<u>(272,530)</u>
(7,199,442)	967,942	8,167,384
3,512,663	3,512,663	0
<u>961,602</u>	<u>961,602</u>	<u>0</u>
<u>(\$2,725,177)</u>	<u>\$5,442,207</u>	<u>\$8,167,384</u>

City of East Cleveland
Cuyahoga County
*Combined Statement of Revenues,
Expenses and Changes in Fund Equity
Proprietary Fund Type
For the Year Ended December 31, 1999*

	Enterprise
Operating Revenues	
Charges for Services	\$6,501,310
Other	21,548
	6,522,858
<i>Total Operating Revenues</i>	<i>6,522,858</i>
Operating Expenses	
Personal Services	590,131
Contractual Services	8,090,231
Materials and Supplies	222,312
Bad Debt Expense	423,011
Depreciation	14,945
	9,340,630
<i>Total Operating Expenses</i>	<i>9,340,630</i>
<i>Operating Loss</i>	<i>(2,817,772)</i>
Non-Operating Revenues (Expenses)	
Interest	11,618
Loss on Disposal of Fixed Assets	(8,000)
	3,618
<i>Total Non-Operating Revenues (Expenses)</i>	<i>3,618</i>
<i>Loss Before Operating Transfers</i>	<i>(2,814,154)</i>
Operating Transfers In	100,000
	(2,714,154)
<i>Net Loss</i>	<i>(2,714,154)</i>
<i>Retained Earnings Beginning of Year</i>	<i>1,046,823</i>
	(1,667,331)
<i>Retained Earnings (Deficit) End of Year</i>	<i>(1,667,331)</i>
<i>Contributed Capital Beginning and End of Year</i>	<i>7,832,733</i>
	\$6,165,402
<i>Total Fund Equity End of Year</i>	<i>\$6,165,402</i>

See accompanying notes to the general purpose financial statements

City of East Cleveland
Cuyahoga County
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, 1999

	Enterprise Fund		Variance Favorable (Unfavorable)
	Revised Budget	Actual	
Revenues			
Charges for Services	\$6,292,633	\$6,209,785	(\$82,848)
Interest	11,619	11,618	(1)
Other	21,548	21,548	0
<i>Total Revenues</i>	<u>6,325,800</u>	<u>6,242,951</u>	<u>(82,849)</u>
Expenses			
Personal Services	587,028	587,028	0
Materials and Supplies	138,216	138,216	0
Contractual Services	5,744,047	8,093,416	(2,349,369)
Capital Outlay	264,585	45,495	219,090
Debt Service:			
Principal Retirement	40,017	40,017	0
<i>Total Expenses</i>	<u>6,773,893</u>	<u>8,904,172</u>	<u>(2,130,279)</u>
<i>Excess of Revenues Under Expenses</i>	(448,093)	(2,661,221)	(2,213,128)
Operating Transfers In	100,000	100,000	0
<i>Excess of Revenues Under Expenses and Operating Transfers</i>	(348,093)	(2,561,221)	(2,213,128)
<i>Fund Equity Beginning of Year</i>	746,106	746,106	0
Unexpended Prior Year Encumbrances	52,060	52,060	0
<i>Fund Equity (Deficit) End of Year</i>	<u>\$450,073</u>	<u>(\$1,763,055)</u>	<u>(\$2,213,128)</u>

See accompanying notes to the general purpose financial statements

City of East Cleveland
Cuyahoga County
Combined Statement of Cash Flows
Proprietary Fund Type
For the Year Ended December 31, 1999

	Enterprise
<i>Increase (Decrease) in Cash and Cash Equivalents</i>	
Cash Flows From Operating Activities	
Cash Received From Customers	\$6,209,785
Cash Received from Other Operating Sources	\$21,548
Cash Payments to Suppliers for Materials and Supplies	(135,255)
Cash Payments for Employee Services and Benefits	(587,028)
Cash Payments for Contractual Services	(8,092,470)
<i>Net Cash Used for Operating Activities</i>	(2,583,420)
Cash Flows from Noncapital Financing Activities:	
Transfers In	100,000
Advances In	1,759,148
<i>Net Cash Provided by Noncapital Financing Activities</i>	1,859,148
Cash Flows From Capital and Related Financing Activities	
Acquisition of Capital Assets	(45,495)
Principal Paid on OPWC Loans	(40,017)
<i>Net Cash Used for Capital and Related Financing Activities</i>	(85,512)
Cash Flows from Investing Activities	
Interest	11,618
<i>Net Decrease in Cash and Cash Equivalents</i>	(798,166)
<i>Cash and Cash Equivalents Beginning of Year</i>	798,166
<i>Cash and Cash Equivalents End of Year</i>	\$0
	(continued)

See accompanying notes to the general purpose financial statements

City of East Cleveland
Cuyahoga County
Combined Statement of Cash Flows
Proprietary Fund Type (continued)
For the Year Ended December 31, 1999

	<u>Enterprise</u>
Reconciliation of Operating Loss to Net Cash Used for Operating Activities	
<i>Operating Loss</i>	<u>(\$2,817,772)</u>
Adjustments to Reconcile Operating Loss to Net Cash Used For Operating Activities:	
Depreciation	14,945
Bad Debt Expense	423,011
(Increase)/Decrease in Assets:	
Accounts Receivable	(291,525)
Inventory	20,208
Increase/(Decrease) in Liabilities:	
Accounts Payable	(525,937)
Accrued Wages	6,818
Claims Payable	976
Compensated Absences Payable	(786)
Intergovernmental Payable	586,642
<i>Total Adjustments</i>	<u>234,352</u>
<i>Net Cash Used for Operating Activities</i>	<u><u>(\$2,583,420)</u></u>

Noncash Capital Financing Activities:

During 1999, the Ohio Public Works Commission paid \$48,606 directly to contractors on behalf of the City. The City recognized this amount as a loan obligation.

See accompanying notes to the general purpose financial statements

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City of East Cleveland
Cuyahoga County
Notes To The General Purpose Financial Statements
For the Year Ended December 31, 1999

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
Cuyahoga County
Notes To The General Purpose Financial Statements
For the Year Ended December 31, 1999

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 Fund This fund is 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.

City of East Cleveland
Cuyahoga County
Notes To The General Purpose Financial Statements
For the Year Ended December 31, 1999

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.

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.

City of East Cleveland
Cuyahoga County
Notes To The General Purpose Financial Statements
For the Year Ended December 31, 1999

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.

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, 1999, 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.

City of East Cleveland
Cuyahoga County
Notes To The General Purpose Financial Statements
For the Year Ended December 31, 1999

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

Estimated Resources The County Budget Commission determines if the budget substantiates a need to levy all or part of previously authorized taxes and reviews estimated revenue. The Commission certifies its actions to the City by September 1. As part of this certification, the City receives the official certificate of estimated resources, which states the projected revenue of each fund. Prior to December 31, the City must revise its budget so that the total contemplated expenditures from any fund during the ensuing fiscal year will not exceed the amount available as stated in the certificate of estimated resources. The revised budget then serves as the basis for the annual appropriations ordinance. On or about January 1, the certificate of estimated resources is amended to include unencumbered fund balances at December 31 of the preceding year. The certificate may be further amended during the year if the Finance Director determines, and the Budget Commission agrees, that an estimate needs to be either increased or decreased. The amounts reported on the budgetary statements reflect the amounts in the final amended official certificate of estimated resources issued during 1999.

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

City of East Cleveland
Cuyahoga County
Notes To The General Purpose Financial Statements
For the Year Ended December 31, 1999

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 1999, investments were limited to STAROhio and repurchase agreements.

Except for nonparticipating investment contracts, investments are reported at fair value which is based on quoted market prices. Nonparticipating investment contracts such as repurchase agreements are reported at cost.

STAROhio is an investment pool managed by the State Treasurer's Office which allows governments within the State to pool their funds for investment purposes. STAROhio is not registered with the SEC as an investment company, but does operate in a manner consistent with Rule 2a7 of the Investment Company Act of 1940. Investments in STAROhio are valued at STAROhio's share price which is the price the investment could be sold for on December 31, 1999.

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

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

Investment procedures are restricted by the provisions of the Ohio Revised Code. Interest revenue credited to the general fund during 1999 amounted to \$192,815, which includes \$88,984 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. Investments with an initial maturity of more than three months are reported as investments.

D. Inventory

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

E. Interfund Assets and Liabilities

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

City of East Cleveland
Cuyahoga County
Notes To The General Purpose Financial Statements
For the Year Ended December 31, 1999

F. Fixed Assets and Depreciation

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

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

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

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

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

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

G. Accrued Liabilities and Long-Term Obligations

In general, governmental fund payables and accrued liabilities are reported as obligations of the funds, regardless of whether they will be liquidated with current resources. However, claims and 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.

City of East Cleveland
Cuyahoga County
Notes To The General Purpose Financial Statements
For the Year Ended December 31, 1999

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.

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.

City of East Cleveland
Cuyahoga County
Notes To The General Purpose Financial Statements
For the Year Ended December 31, 1999

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 - 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).

City of East Cleveland
Cuyahoga County
Notes To The General Purpose Financial Statements
For the Year Ended December 31, 1999

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	\$786,912	\$1,258,683	\$199	\$49,155
Net Adjustment for Revenue Accruals	(791,922)	(265,602)	0	1,750
Advances In	0	222,578	0	0
Net Adjustment for Expenditure Accruals	81,892	299,767	0	(14,218)
Advances Out	(222,578)	0	0	0
Encumbrances	(220,083)	(146,366)	0	(72,225)
Budget Basis	<u>(\$365,779)</u>	<u>\$1,369,060</u>	<u>\$199</u>	<u>(\$35,538)</u>

Net Loss/Excess of Revenues
Under Expenses
Proprietary Fund Type

	Enterprise
GAAP Basis	(\$2,714,154)
Net Adjustment for Revenue Accruals	(291,525)
Net Adjustment for Expense Accruals	87,921
Bad Debt Expense	423,011
Depreciation Expense	14,945
Principal Retirement	(40,017)
Loss on Disposal of Fixed Assets	8,000
Capital Outlay	(45,495)
Encumbrances	(3,907)
Budget Basis	<u>(\$2,561,221)</u>

City of East Cleveland
Cuyahoga County
Notes To The General Purpose Financial Statements
For the Year Ended December 31, 1999

Note 4 - Accountability and Compliance

A. Fund Deficits

The following funds had deficit fund balances as of December 31, 1999:

Fund	Amount
<i>Special Revenue Funds</i>	
Older Americans	\$48,829
Recycling Grant	12,646
Community Development	7,538
Special Purpose Grant	66,747
Community Cops	2,741
VOCA	3,626
COPS More	2,701
Block Grant 97	8,325
 <i>Enterprise Fund</i>	
Sewer	97,663

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

B. Legal Compliance

The following accounts had expenditures plus encumbrances in excess of appropriations contrary to Ohio Revised Code Section 5705.41:

City of East Cleveland
Cuyahoga County
Notes To The General Purpose Financial Statements
For the Year Ended December 31, 1999

Fund/Program	Appropriations	Expenditures Plus Encumbrances	Excess
General Fund:			
Security of Persons and Property			
Police Department			
Personal Services	\$3,961,395	\$3,999,225	\$37,830
Leisure Time Activities			
Personal Services	123,780	131,951	8,171
Basic Utility Service			
Refuse Collection			
Contractual Services	996,319	1,121,779	125,460
Street Lighting			
Capital Outlay	176,045	177,114	1,069
Transportation			
Materials and Supplies	51,452	55,173	3,721
General Government			
Courts			
Personal Services	848,528	868,550	20,022
Tax Department			
Personal Services	117,384	170,673	53,289
Central Services			
Personal Services	351,068	428,205	77,137
Contractual Services	645,351	663,550	18,199
Land And Building			
Personal Services	87,243	93,978	6,735
Materials and Supplies	33,864	34,422	558
Contractual Services	3,642	19,590	15,948
Special Revenue:			
Police Accrued Liability			
Security of Persons and Property			
Other Expenditures	49,112	51,229	2,117
Fire Accrued Liability			
Security of Persons and Property			
Other Expenditures	0	42,368	42,368
Recycling Grant			
Community Environment			
Contractual Services	275	19,801	19,526

City of East Cleveland
Cuyahoga County
Notes To The General Purpose Financial Statements
For the Year Ended December 31, 1999

Fund/Program	Appropriations	Expenditures Plus Encumbrances	Excess
Special Revenue (continued):			
Victims of Crime Act			
Community Environment			
Personal Services	\$18,121	\$31,466	\$13,345
Block Grant			
General Government			
Capital Outlay	59,769	106,616	46,847
City Probation Services			
Security of Persons and Property			
Contractual Services	17,765	23,859	6,094
Enterprise Fund:			
Water			
Contractual Services	2,668,134	4,040,314	1,372,180
Sewer			
Contractual Services	3,075,913	4,053,102	977,189

The following funds had appropriations in excess of estimated resources plus available balances for fiscal year 1999, contrary to Ohio Revised Code Section 5705.39:

	Estimated Resources	Appropriations	Excess
Special Revenue:			
Older Americans	\$411,881	\$678,714	\$266,833
Norfolk Southern Award	210,000	600,000	390,000
CSX Award	1,180,000	2,680,000	1,500,000
Special Enforcement Unit	315,848	505,095	189,247
Litter Division Program	1,752	5,947	4,195
Community Development	1,122,607	2,799,495	1,676,888
Special Purpose Grant	96,198	914,442	818,244
Home Program	352,046	1,780,285	1,428,239
Domestic Violence	10,613	13,153	2,540
DARE Grant	37,787	62,773	24,986
Engineering and Building	13,522	14,255	733
Summer Day Camp	27,130	30,000	2,870
Strategic Master Plan	24,972	34,972	10,000
COPS More	742	1,141	399
COPS Universal	109,929	128,001	18,072
STEP Program	1,304	7,981	6,677
Nature Works	0	2,638	2,638

City of East Cleveland
Cuyahoga County
Notes To The General Purpose Financial Statements
For the Year Ended December 31, 1999

	Estimated Resources	Appropriations	Excess
Capital Projects:			
Arts Project	\$0	\$100,000	\$100,000
Construction	0	194,768	194,768

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:

Water Enterprise Fund	\$951,703
Sewer Enterprise Fund	794,108

In order to eliminate these deficits, the City increased the rates charged in 2000 and is considering further rate increases in the future. Also in 2000, the City adopted an ordinance which passes all supplier rate increases onto the residents of the City. Previously, supplier rate increases were not passed onto the residents of the City.

In 2001, the Financial Planning and Supervision Commission began developing a financial recovery plan which will include a reduction of approximately 15% in the general fund budget. This reduction will make general fund monies available for operating transfers to the enterprise funds. Also in 2001, the City commissioned a study on the loss of water, a vital component of the deficit. The results of the study will be evaluated and the appropriate steps will be determined at that time.

Note 5 - Deposits and Investments

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

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

Inactive deposits are public deposits that Council has identified as not required for use within the current 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.

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

Interim monies may be invested in the following securities:

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

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

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

Investments in stripped principal or interest obligations, reverse repurchase agreements and derivatives are prohibited. The issuance of taxable notes for the purpose of arbitrage, the use of leverage and short selling are also prohibited. An investment must mature within five years from the date of purchase unless matched to a

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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 \$1,429,740 and the bank balance was \$2,310,874. Of the bank balance:

1. \$642,038 was covered by federal depository insurance.
2. \$1,668,836 was uncollateralized and uninsured. Although the securities were held by the pledging financial institutions trust department or agent in the City's name and all State statutory requirements for the investment of money had been followed, noncompliance with federal requirements could potentially subject the City to a successful claim by the FDIC.

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

	Category 3	Carrying Value	Fair Value
Repurchase Agreements	\$2,917,987	\$2,917,987	\$2,917,987
StarOhio			801,231
Total Investments			\$3,719,218

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:

City of East Cleveland
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Notes To The General Purpose Financial Statements
For the Year Ended December 31, 1999

	Cash and Cash Equivalents/Deposits	Investments
GASB Statement No. 9	\$5,148,958	\$0
Investments:		
Repurchase Agreements	(2,917,987)	2,917,987
STAROhio	(801,231)	801,231
GASB Statement No. 3	\$1,429,740	\$3,719,218

Note 6 - Taxes

A. Property Taxes

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

1999 real property taxes are levied after October 1, 1999 on the assessed value as of January 1, 1999, the lien date. Assessed values are established by State law at 35 percent of appraised market value. 1999 real property taxes are collected in and intended to finance 2000.

Public utility tangible personal property currently is assessed at varying percentages of true value; public utility real property is assessed at 35 percent of true value. 1999 public utility property taxes became a lien December 31, 1999, are levied after October 1, 1999, and are collected in 2000 with real property taxes.

1999 tangible personal property taxes are levied after October 1, 1998, on the value as of December 31, 1998. Collections are made in 1999. Tangible personal property assessments are 25 percent of true value.

The full tax rate for all City operations for the year ended December 31, 1999, was \$12.70 per \$1,000 of assessed value. The assessed values of real and tangible personal property upon which 1999 property tax receipts were based are as follows:

Category	Assessed Value
Real Estate	\$151,679,350
Public Utility	18,733,580
Tangible Personal Property	12,838,474
Total Assessed Value	\$183,251,404

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

City of East Cleveland
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Notes To The General Purpose Financial Statements
For the Year Ended December 31, 1999

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 by September 20.

The County Treasurer collects property taxes on behalf of all taxing districts in the county, including the City of East Cleveland. The County Auditor periodically remits to the City its portion of the taxes collected. Property taxes receivable represent real tangible personal property taxes, public utility taxes and outstanding delinquencies which are measurable as of December 31, 1999. 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 1999 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. In the latter case, the City allows a credit of 75 percent of the tax paid to another municipality to a maximum of the total amount assessed with a limit to the credit of 1.25 percent.

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

Note 7 - Receivables

Receivables at December 31, 1999 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 utility receivables, which has an allowance for doubtful accounts of \$1,703,254.

City of East Cleveland
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Notes To The General Purpose Financial Statements
For the Year Ended December 31, 1999

A summary of the principal items of intergovernmental receivables follows:

Intergovernmental Receivables	Amount
General Fund:	
Grants	\$19,025
Liquor Permits	9,208
Local Government Assistance	249,879
<i>Total General Fund</i>	<i>278,112</i>
Special Revenue Funds:	
Street	41,081
Older Americans	16,218
Recycling Grant	3,179
COPS Universal	18,000
Block Grant	2,837
<i>Total Special Revenue Funds</i>	<i>81,315</i>
<i>Total</i>	<i>\$359,427</i>

Note 8 - Fixed Assets

A summary of the enterprise funds' fixed assets at December 31, 1999 follows:

Water Lines	\$8,370,468
Machinery and Equipment	361,495
Less Accumulated Depreciation	(1,153,908)
Net Fixed Assets	\$7,578,055

A summary of changes in general fixed assets during 1999 follows:

	Balance 1/1/99	Additions	Deductions	Balance 12/31/99
Land	\$1,329,717	\$0	\$0	\$1,329,717
Buildings	3,492,000	0	0	3,492,000
Machinery and Equipment	3,905,204	352,890	(127,740)	4,130,354
Total	\$8,726,921	\$352,890	(\$127,740)	\$8,952,071

City of East Cleveland
Cuyahoga County
Notes To The General Purpose Financial Statements
For the Year Ended December 31, 1999

Note 9 - Contingencies

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

Note 10 - Capital Leases

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

Capital lease payments have been reclassified and are reflected as debt service in the general purpose financial statements in the general fund. 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 \$737,277, 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, 1999.

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Notes To The General Purpose Financial Statements
For the Year Ended December 31, 1999

Year	Amount
2000	\$110,775
2001	82,433
2002	76,521
2003	76,521
2004	76,521
2005-2008	261,448
Total minimum lease payments	684,219
Less: Amount representing interest	(125,048)
Present value of minimum lease payments	\$559,171

Note 11 - Long Term Obligations

Changes in the long-term obligations of the City during 1999 were as follows:

	Outstanding 12/31/98	Additions	(Reductions)	Outstanding 12/31/99
General Long-term Obligations:				
OPWC Loan 0%	\$8,178	\$0	(\$511)	\$7,667
Capital Leases	693,993	0	(134,822)	559,171
Police and Fire Pension Liability	1,724,447	0	(20,349)	1,704,098
Compensated Absences	1,191,089	0	(62,530)	1,128,559
Contingent Liability	25,000	0	0	25,000
Intergovernmental Payable	350,318	355,793	(350,318)	355,793
Total General Long-Term Obligations	3,993,025	355,793	(568,530)	3,780,288
Enterprise Fund Obligations				
OPWC Loans	650,830	48,606	(40,017)	659,419
Total	\$4,643,855	\$404,399	(\$608,547)	\$4,439,707

Capital leases will be paid from various revenues from the general fund, community development and computer legalize special revenue funds, and the permanent improvements capital projects fund. 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.

City of East Cleveland
Cuyahoga County
Notes To The General Purpose Financial Statements
For the Year Ended December 31, 1999

The City's overall legal debt margin was \$19,263,449 at December 31, 1999. Principal and interest requirements to retire long-term obligations outstanding at December 31, 1999 are as follows:

	OPWC Loans	Police and Fire Liability
2000	\$40,543	\$93,596
2001	40,543	93,596
2002	40,543	93,596
2003	40,543	93,596
2004	40,543	93,596
2005-2009	202,715	467,982
2010-2014	202,717	467,982
2015-2019	58,939	467,982
2020-2035	0	1,446,593
Total	\$667,086	\$3,318,519

Note 12 - Other Employee Benefits

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, 1999, the liability for unpaid compensated absences was \$1,217,997 for the entire City.

Note 13 - Defined Benefit Pension Plans

A. Public Employees Retirement System

All City full-time employees, other than Police and Firemen, 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.

City of East Cleveland
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For the Year Ended December 31, 1999

Plan members are required to contribute 8.5 percent of their annual covered salary to fund pension obligations and the City is required to contribute 9.35 percent. Contributions are authorized by State statute. The contribution rates are determined actuarially. The City's required contributions to PERS for the years ended December 31, 1999, 1998, and 1997 were \$728,030, \$524,506, and \$301,560, respectively. The full amount has been contributed for 1998 and 1997. 77.78 percent has been contributed for 1999 with the remainder being reported as a liability within the enterprise funds and the general long-term obligations account group.

B. Police and Firemen's Disability and Pension Fund (PFDPF)

The City contributes to the Police and Firemen's Disability and Pension Fund of Ohio (PFDPF), a cost-sharing multiple employer public employee retirement system administered by the PFDPF's Board of Trustees. The PFDPF 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. The PFDPF issues a publicly available financial report that includes financial information and required supplementary information. That report may be obtained by writing to the Police and Firemen's Disability and Pension Fund of Ohio, 140 East Town Street, Columbus, Ohio 43215.

Police and firefighters are required to contribute 10 percent of their annual covered salary to fund pension obligations and for 1999 the City was required to contribute 12.5 percent for police and 17 percent for firefighters. For 1998 the City contributions were 13 percent for police and 17.5 percent for firefighters. Contributions are authorized by State statute. The City's contributions to the PFDPF for police and firefighters were \$594,651 and \$449,145 for the year ended December 31, 1999, \$339,982 and \$347,755 for the year ended December 31, 1998, and \$278,566 and \$294,637 for 1997. The full amount has been contributed for 1998 and 1997. 88.05 and 82.21 percent, respectively, have been contributed for 1999 with the remainder being reported as a liability within the general long-term obligations account group.

In addition to current contributions, the City pays installments on the accrued liability incurred when the State of Ohio established the statewide pension system for police and fire fighters in 1967. As of December 31, 1999, the unfunded liability of the City was \$1,704,098 payable in semiannual payment 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 14 - Postemployment Benefits

A. Public Employees Retirement System

The Public Employees Retirement System of Ohio (PERS) provides postretirement health care coverage to age and service employees with ten or more years of qualifying Ohio service credit and to primary survivor recipients of such retirees. Health care coverage for disability recipients is available. The health care coverage provided by the retirement system is considered an Other Postemployment Benefit (OPEB) 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 the authority granted by State statute. The 1999 employer contribution rate was 13.55 percent of covered payroll for employees; 4.2 percent was the portion that was used to fund health care.

City of East Cleveland
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For the Year Ended December 31, 1999

Benefits are funded on a pay-as-you-go basis. OPEB are financed through employer contributions and investment earnings. The contributions allocated to retiree health care and Medicare, along with investments income on allocated assets and periodic adjustments in health care provisions, are expected to be sufficient to sustain the program indefinitely. During 1999, OPEB expenditures made by PERS were \$523,599,349. As of December 31, 1999, the unaudited estimated net assets available for future OPEB payments were \$9,870,285,641. At December 31, 1999, the total number of benefit recipients eligible for OPEB through PERS was 118,062. The City's actual contributions for 1999 which were used to fund OPEB were \$235,607.

During 1997, PERS adopted a new calculation method for determining employer contributions applied to OPEB. Under the new method, effective January 1, 1998, employer contributions, equal to 4.2 percent of member covered payroll, are used to fund health care expenses. Under the prior method, accrued liabilities and normal cost rates were determined for retiree health coverage.

B. Police and Firemen's Disability and Pension Fund

The Police and Firemen's Disability and Pension Fund (PFDPF) 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 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 Police and Firemen's Disability and Pension Fund's board of trustees to provide health care coverage and states that health care cost paid from the Police and Firemen's Disability and 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 percent of covered payroll was applied to the postemployment health care program during 1999. For 1998 the percent used to fund healthcare was 6.5 percent. This allocation will be raised to 7.25 percent in 2000. 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 1999 that were used to fund postemployment benefits were \$333,005 for police and \$184,942 for fire. PFDPF's total health care expenses for the year ended December 31, 1998, (the latest information available) were \$78,596,790, which was net of member contributions of \$5,331,515. The number of PFDPF participants eligible to receive health care benefits as of December 31, 1998, was 11,424 for police and 9,186 for firefighters.

City of East Cleveland
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Notes To The General Purpose Financial Statements
For the Year Ended December 31, 1999

Note 15 - Segment Information for Enterprise Funds

The City maintains two enterprise funds to account for sewer and water operations. Segment information for these operations for the year ended December 31, 1999 is as follows:

	<u>Water</u>	<u>Sewer</u>	<u>Total</u>
Operating Revenues	\$3,556,513	\$2,966,345	\$6,522,858
Depreciation Expense	14,945	0	14,945
Operating Loss	(1,336,464)	(1,481,308)	(2,817,772)
Operating Transfer In	50,000	50,000	100,000
Non-Operating Revenues (Expenditures)	(2,307)	5,925	3,618
Net Loss	(1,288,771)	(1,425,383)	(2,714,154)
Fixed Asset Additions	34,791	10,704	45,495
Net Working Capital	(422,903)	(308,385)	(731,288)
Total Assets	8,418,609	896,708	9,315,317
Long-Term Liabilities	672,450	8,915	681,365
Total Equity	6,471,998	(306,596)	6,165,402
Encumbrances at December 31, 1999	2,524	1,383	3,907

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 1999, the City contracted with several companies for other types of insurance as follows:

<u>Company</u>	<u>Type of Coverage</u>	<u>Coverage</u>
Reliance Insurance	Blanket Building and Business Personal Property	\$15,034,655
Arkwright Mutual 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.

City of East Cleveland
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Notes To The General Purpose Financial Statements
For the Year Ended December 31, 1999

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, 1999.

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 1999 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 \$111,592 is reported in various funds at December 31, 1999, 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 1997 through 1999 were:

	Balance at Beginning of Year	Current Year Claims	Claim Payments	Balance at End of Year
1997	\$101,066	\$939,528	\$904,490	\$136,104
1998	136,104	1,301,877	1,352,987	84,994
1999	84,994	1,223,821	1,197,223	111,592

City of East Cleveland
Cuyahoga County
Notes To The General Purpose Financial Statements
For the Year Ended December 31, 1999

Note 18- Interfund Transactions

Interfund balances at December 31, 1999, consist of the following interfund receivables and payables:

	<u>Receivable</u>	<u>Due From</u>	<u>Payable</u>	<u>Due To</u>
General Fund	<u>\$1,968,389</u>	<u>\$46,408</u>	<u>\$0</u>	<u>\$0</u>
Special Revenue Funds				
Older Americans	0	0	62,378	0
Recycling Grant	0	0	15,820	0
Community Development	0	0	64,036	0
Computer Legalize Fees	0	4,888	0	0
Special Purpose Grant	0	0	67,447	0
Victims of Crime Act	0	0	1,734	0
Block Grant	<u>0</u>	<u>0</u>	<u>11,163</u>	<u>0</u>
<i>Total Special Revenue</i>	<u>0</u>	<u>4,888</u>	<u>222,578</u>	<u>0</u>
Enterprise Funds				
Water	0	0	951,703	0
Sewer	<u>0</u>	<u>0</u>	<u>794,108</u>	<u>0</u>
<i>Total Enterprise</i>	<u>0</u>	<u>0</u>	<u>1,745,811</u>	<u>0</u>
Agency Fund				
Municipal Court	<u>0</u>	<u>0</u>	<u>0</u>	<u>51,296</u>
Totals	<u><u>\$1,968,389</u></u>	<u><u>\$51,296</u></u>	<u><u>\$1,968,389</u></u>	<u><u>\$51,296</u></u>

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**CITY OF EAST CLEVELAND
 CUYAHOGA COUNTY
 SCHEDULE OF FEDERAL AWARDS EXPENDITURES
 FOR THE YEAR ENDED DECEMBER 31, 1999**

Federal Grantor/ Pass-Through Grantor/ Program Title	Project/Grant Number	CFDA Number	Receipts	Disbursements
<u>U.S. Department of Housing and Urban Development</u>				
<i>Direct Programs:</i>				
Community Development Block Grant/Entitlement Grant	B97MC3-90030	14.218	\$555,944	\$748,718
	B98MC3-90030		247,629	0
Total Community Development Block Grant/Entitlement Grant			<u>803,573</u>	<u>748,718</u>
HOME Investment Partnerships Program	M94MC3-90200	14.239	0	5,251
	M95MC3-90200		114,670	139,366
	M96MC3-90200		207,126	182,157
	M97MC3-90200		2,391	0
Total HOME Investment Partnerships Program			<u>324,187</u>	<u>326,774</u>
<i>Passed Through the Ohio Department of Development:</i>				
Single Mothers Adopt Reality Therapy (S.M.A.R.T.)	OH125PG33	NA	58,870	93,786
Total S.M.A.R.T.			<u>58,870</u>	<u>93,786</u>
Total U.S. Department of Housing and Urban Development			<u>1,186,630</u>	<u>1,169,278</u>
<u>U.S. Department of Health and Human Services</u>				
<i>Passed Through the Western Reserve Area Agency on Aging:</i>				
<i>Special Programs for the Aging:</i>				
Title III, Part F_Disease	N/A	93.043	0	432
Total Title III, Part F_Disease			<u>0</u>	<u>432</u>
<u>Aging Cluster:</u>				
Title III, Part B_Grants for Supportive Services and Senior Centers	N/A	93.044	188,201	324,927
Title III, Part C_Nutrition	N/A	93.045	36,852	45,843
Total Aging Cluster			<u>225,053</u>	<u>370,770</u>
Total U.S. Department of Health and Human Services			<u>225,053</u>	<u>371,202</u>
<u>U.S. Department of Justice</u>				
<i>Direct Programs:</i>				
Public Safety Partnership and Community Policing Grants (C.O.P.S. More)	1997CMWX0963	16.710	40,020	0
Public Safety Partnership and Community Policing Grants (C.O.P.S. Universal)	1995CFWX2398	16.710	38,110	77,155
Total C.O.P.S. Grants - Direct Programs			<u>78,130</u>	<u>77,155</u>
<i>Passed Through the Ohio Attorney General's Office:</i>				
Crime Victim Assistance (V.O.C.A.)	18-176	16.575	37,549	53,633
Total Crime Victim Assistance (V.O.C.A.)			<u>37,549</u>	<u>53,633</u>
Total U.S. Department of Justice			<u>115,679</u>	<u>130,788</u>
TOTAL FEDERAL ASSISTANCE			<u>\$1,527,362</u>	<u>\$1,671,268</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, 1999**

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, 1999, and have issued our report thereon dated February 26, 2001. We conducted our audit in accordance with generally accepted auditing standards 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 general-purpose 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 as items 1999-20818-001 to 1999-20818-005. We also noted certain immaterial instances of noncompliance that we have reported to management of the City in a separate letter dated February 26, 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 as items 1999-20818-006 to 1999-20818-008.

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 1999-20818-006 to 1999-20818-008, to be material weaknesses. We also noted other matters involving the internal control over financial reporting that do not require inclusion in this report, that we have reported to management of the City in a separate letter dated February 26, 2001.

This report is intended for the information and use of management, City Council 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

February 26, 2001



STATE OF OHIO
OFFICE OF THE AUDITOR

JIM PETRO, AUDITOR OF STATE

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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 its major federal programs for the year ended December 31, 1999. The City's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings. Compliance with the requirements of laws, regulations, contracts and grants applicable to 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 generally accepted auditing standards; 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 legal determination on the City's compliance with those requirements.

As described in items 1999-20818-009 to 1999-20818-011, 1999-20818-013 and 1999-20818-014 in the accompanying schedule of findings, the City did not comply with requirements regarding allowable costs/cost principles, procurement and reporting that are applicable to its Community Development Block Grant and HOME program. Compliance with such requirements is necessary, in our opinion, for the City to comply with requirements applicable to that program.

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, 1999. We also noted certain instances of noncompliance that do not require inclusion in this report that we have reported to management of the City in a separate letter dated February 26, 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 certain matters involving the internal control over compliance and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over 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. Reportable conditions are described in the accompanying schedule of findings as items 1999-20818-012 and 1999-20818-015.

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 none of the reportable conditions 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 management of the City in a separate letter dated February 26, 2001.

This report is intended for the information and use of management, City Council 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

February 26, 2001

**CITY OF EAST CLEVELAND
CUYAHOGA COUNTY
DECEMBER 31, 1999**

SCHEDULE OF FINDINGS

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

**CITY OF EAST CLEVELAND
CUYAHOGA COUNTY
DECEMBER 31, 1999**

SCHEDULE OF FINDINGS (Continued)

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

Finding Number	1999-20818-001
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Ohio Rev. Code § 5705.39, provides that total appropriations from each fund should not exceed the total estimated revenue. The following funds had appropriations in excess of total estimated revenue:

<u>Fund</u>	<u>Estimated Resources</u>	<u>Appropriations</u>	<u>Excess</u>
Older Americans	\$411,881	\$678,714	(\$266,833)
Norfolk Southern Award	210,000	600,000	(390,000)
CSX Award	1,180,000	2,680,000	(1,500,000)
Special Enforcement Unit	315,848	505,095	(189,247)
Litter Division	1,752	5,947	(4,195)
Community Development	1,122,607	2,799,495	(1,676,888)
Special Purpose Grant	96,198	914,442	(818,244)
Home Program	352,046	1,780,285	(1,428,239)
Domestic Violence	10,613	13,153	(2,540)
DARE Grant	37,787	62,773	(24,986)
Engineering and Building	13,522	14,255	(733)
Summer Day Camp	27,130	30,000	(2,870)
Strategic Master Plan	24,972	34,972	(10,000)
COPS More	742	1,141	(399)
COPS Universal	109,929	128,001	(18,072)
STEP Program	1,304	7,981	(6,677)
Nature Works	0	2,638	(2,638)
Arts Project	0	100,000	(100,000)
Construction	0	194,768	(194,768)

Finding Number	1999-20818-002
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Ohio Rev. Code § 5705.41(B) and 5705.41(D), prohibits 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 (i.e. contractual services):

<u>Fund</u>	<u>Appropriations</u>	<u>Expenditures Plus Encumbrances</u>	<u>Excess</u>
Water - Contractual Services	\$2,668,134	\$4,040,314	(\$1,372,180)
Sewer - Contractual Services	3,075,913	4,053,102	(977,189)

**CITY OF EAST CLEVELAND
CUYAHOGA COUNTY
DECEMBER 31, 1999**

SCHEDULE OF FINDINGS (Continued)

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

(Continued)

Finding Number	1999-20818-003
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Ohio Rev. Code § 5705.41(D) prohibits a political subdivision from making an expenditure unless there is a certificate of the fiscal officer stating that the amount required for the order or contract 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 encumbrances.

A test of the procurement controls disclosed 22% of the invoices tested were dated prior to the Finance Director's certification, contrary to this requirement.

Finding Number	1999-20818-004
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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 recommend that she take immediate action to correct this situation.

Finding Number	1999-20818-005
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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, 1999, the following funds had significant negative cash fund balances:

<u>Fund</u>	<u>Amount</u>
Water	(\$958,238)
Sewer	(800,910)

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

**CITY OF EAST CLEVELAND
CUYAHOGA COUNTY
DECEMBER 31, 1999**

SCHEDULE OF FINDINGS (Continued)

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

(Continued)

Finding Number	1999-20818-006
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Cash balances include cash in bank accounts and other imprest accounts such as payroll. Cash is an asset that is very susceptible to embezzlement and is considered a high risk asset because of its liquidity and its desirability. In order for the cash to be properly monitored and accounted for, most entities perform a monthly bank reconciliation. This reconciliation verifies 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 1999. 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 the adjusted bank balance exceeded the adjusted book balance by \$80,718 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.

Also, 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 1999. 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 should be reviewed and approved by the Finance Director and by the Judge.

Finding Number	1999-20818-007
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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 to document the performance of services and the signatures of the employee, the supervisor and the payroll administrator attest to the accuracy of the time charged.

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

- 59% of the time the employee did not sign the timecard;
- 26% of the time the department head did not sign the timecard indicating approval of the hours charged;
- 15% of the time the employee charged overtime and the department head did not sign the timecard indicating approval of the hours charged; and
- 92% of the time the payroll administrator did not make a notation on the timecard indicating the hours charged were mathematically correct.

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

**CITY OF EAST CLEVELAND
CUYAHOGA COUNTY
DECEMBER 31, 1999**

SCHEDULE OF FINDINGS (Continued)

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

(Continued)

Finding Number	1999-20818-008
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A review of the Municipal Court disclosed the following:

- Record keeping was inaccurate and inconsistent, and there appears to be little 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 cash activity of all court accounts, except trusteeship, have been commingled due to the lack of sufficient monitoring controls. Furthermore, in 1998 the Court's bank accounts had been closed out and new accounts established in order to facilitate control over subsequent cash activities. Court personnel appeared to be unaware of the establishment of the new accounts. Consequently, cash activity was commingled between the Court's closed out accounts and newly established accounts. In December 2000, the Court closed the old bank accounts.
- 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, 1999, approximately \$131,758 in bond accounts was outstanding and approximately \$27,000 was more than one year old.
- The Court does not prepare the open items list of the Civil account necessary to substantiate the month end cash balance. This leads to errors occurring 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 set per the City's bond schedule.
- Sound controls should be designed to safeguard the Court's assets against losses and prevent or detect misstatements in the accounting records. In the civil division, the clerks processes their receipts using a separate cash drawer while clerks in the criminal division process their receipts using the same cash drawer. This makes it difficult to identify which clerk errors or irregularities are attributable to.

**CITY OF EAST CLEVELAND
CUYAHOGA COUNTY
DECEMBER 31, 1999**

SCHEDULE OF FINDINGS (Continued)

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

(Continued)

Finding Number	1999-20818-008
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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 as to provide employees with instructions on performing all Court activities. These procedures should include policies to initiate collection proceedings on 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.
- The Civil, Criminal/Traffic, and Bail Bond accounts' cash ledgers be prepared by integrating the receipt files from the computer system and the checks being drawn on the account. The book balance represented in the ledger and the bank statement balance could then be accurately reconciled. The Court should also seek system support from its internal EDP department and its software vendor to review the capabilities of the present system. It should determine the need for peripheral support to the present system in order to establish a properly maintained ledger which integrates revenue and disbursement activity to produce reliable, perpetually maintained cash balance information.
- Due diligence be used in the monitoring of the Court's cash and book activities. Also, sufficient monitoring procedures should be established and consistently applied to ensure the integrity of individual court accounts and to avoid commingling activities. Monitoring should include, but not be limited to, management's review of case status, accounts receivable, open items lists (including bonds), account reconciliations and the disposition of cases.
- The Court review and update the open items list for City and State bonds to determine the status of each bail bond deposit. Once the status is determined, the proper steps should be taken by the law department to determine which items may legally be placed in an unclaimed funds account established by the City. Policies should be established that ease the compilation of the list and the list should be updated monthly.
- 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.
- Separate cash drawers be used by each clerk in the criminal division when processing receipts.

**CITY OF EAST CLEVELAND
CUYAHOGA COUNTY
DECEMBER 31, 1999**

SCHEDULE OF FINDINGS (Continued)

3. FINDINGS FOR FEDERAL AWARDS

Finding Number	1999-20818-009
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 1999, neither the CAPs nor IDCRPs were prepared for the recovery of indirect costs. Further, it was noted that the Community Development Department administered several grants. The City directly charged certain grants for indirect costs, such as electricity, telephone bills, gas bills, etc. The City did not maintain sufficient usage documentation to substantiate the reasoning for charging the specific grants the amounts that were charged to them.

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

Finding Number	1999-20818-010
CFDA Title and Number	Community Development Block Grant, CFDA # 14.218
Federal Agency	Department of Housing and Urban Development

24 CFR 85.41(c)(4), requires grantees 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, 1999 until April 2000, contrary to this requirement. Not filing the quarterly reports in a timely manner resulted in noncompliance with the reporting requirement stated above and could affect current and future funding received by the City.

We recommend the Community Development Department review the grant requirements and adopt policies and procedures to ensure the timely filing of the quarterly federal cash transaction reports. If delays are anticipated in submitting the reports, the City should seek written approval for an extension from the federal grantor agency.

**CITY OF EAST CLEVELAND
CUYAHOGA COUNTY
DECEMBER 31, 1999**

SCHEDULE OF FINDINGS (Continued)

3. FINDINGS FOR FEDERAL AWARDS

(Continued)

Finding Number	1999-20818-011
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 which meets the standards in subsection (5) unless a statistical sampling system or other substitute system has been approved by the cognizant federal agency. Such documentary support will be required where employees work on: (a) more than one federal award, (b) a federal award and a non-federal award, (c) an indirect cost activity and a direct cost activity, (d) two or more indirect activities which are allocated using different allocation bases, or (e) an unallowable activity and a direct or indirect cost activity”.

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. 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 will be charged.

Finding Number	1999-20818-012
CFDA Title and Number	Community Development Block Grant, CFDA # 14.218
Federal Agency	Department of Housing and Urban Development

The City has instituted control procedures to ensure that recorded purchase transactions represent actual receipts of goods or services and are approved. The City utilizes purchase orders and request’s for payment forms to record the review and approval of the various levels of management. The purchase order is to be signed by the mayor and finance director. The request for payment form is to be signed by the director of community development and financial analyst.

A test of transactions disclosed that the director of community development and the financial analyst did not sign the request for payment form for 33% and 62%, respectively, of the transactions.

We recommend that the director of community development, the financial analyst, the mayor and the finance director sign the City’s forms to indicate their approval of the expenditure.

**CITY OF EAST CLEVELAND
CUYAHOGA COUNTY
DECEMBER 31, 1999**

SCHEDULE OF FINDINGS (Continued)

3. FINDINGS FOR FEDERAL AWARDS

(Continued)

Finding Number	1999-20818-013
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 85.36(b), states that “Grantees and subgrantees will use their own procurement procedures which reflect State and local laws and regulations, provided that the procurements conform to applicable Federal law and the standards identified in this section.” 24 CFR Part 85.36(d), states that “Small purchase procedures are those relatively simple and informal procurement methods for securing services, supplies, or other property that do not cost more than \$25,000 in the aggregate. If small purchase procurements are used, price or rate quotations will be obtained from an adequate number of qualified sources.”

According to the City’s purchasing procedures, expenditures greater than \$1,000 are required to follow some type of competitive bidding procedures. However, City purchasing procedures also exempt personal service expenditures from following competitive bidding procedures, contrary to the above Federal laws.

For federal expenditures, we recommend the City revise its procurement procedures to comply with Federal law and require that personal services expenditures greater than \$1,000 follow competitive bidding requirements.

Finding Number	1999-20818-014
CFDA Title and Number	HOME Program, CFDA # 14.239
Federal Agency	Department of Housing and Urban Development

24 CFR sections 570.507(a) and 91.250(a), require participants of the Home Improvement Partnerships Program (HOME) to submit an annual performance report to the U.S. Department of Housing and Urban Development (HUD) within 90 days after the close of the program year. The City had not submitted its annual performance report to HUD for 1999, as of January 26, 2001. Not filing the annual performance report in a timely manner resulted in noncompliance with the reporting requirement stated above and could affect current and future funding received by the City.

We recommend the Community Development Department review the grant requirements and adopt policies and procedures to ensure the timely filing of the annual performance report. If delays are anticipated in submitting the reports, the City should seek written approval for an extension from the federal grantor agency.

**CITY OF EAST CLEVELAND
CUYAHOGA COUNTY
DECEMBER 31, 1999**

SCHEDULE OF FINDINGS (Continued)

3. FINDINGS FOR FEDERAL AWARDS

(Continued)

Finding Number	1999-20818-015
CFDA Title and Number	Community Development Block Grant, CFDA # 14.218
Federal Agency	Department of Housing and Urban Development

The City operates a paint program in which eligible residents receive painting materials from Sherwin Williams. The City requires residents to complete an application and provide proof of residency and income. Once this information is reviewed and the resident is deemed eligible, a paint voucher is prepared and it is signed by the resident and the program director. The voucher is then redeemed at the designated Sherwin Williams store. Annually, Sherwin Williams returns the paint vouchers along with an invoice to the program director. The vouchers are then compared with the applications to ensure a valid application is on file.

In October 1999, the Director of Community Development compared Sherwin Williams invoices, the paint vouchers and the applications and reported the following:

- 34 application files were incomplete, totaling \$10,506;
- No files/applications existed for 44 paint vouchers, totaling \$11,058; and
- 1 of the completed applications was for property in the City of Cleveland.

As a result, on November 29, 1999, the City was only able to charge those invoices that were properly supported to community development block grant funds. The remaining invoices were paid with general fund monies.

The City had adequate control procedures to detect the errors but did not follow them. Therefore, we recommend the City adhere to its policies and procedures for the paint program and take due professional care in the filing of the applications and the supporting documentation.

**CITY OF EAST CLEVELAND
CUYAHOGA COUNTY
DECEMBER 31, 1999**

SCHEDULE OF PRIOR AUDIT FINDINGS AND QUESTIONED COSTS

Finding Number	Finding Summary	Fully Corrected	Not corrected, partially corrected, different corrective action taken; finding no longer valid; Explain
1998-20818-001	Finance director did not certify the availability of funds as required by State law.	No	No change
1998-20818-002	Court dockets were not maintained as required by State law.	No	No change
1998-20818-003	Collecting delinquent utility account receivables.	Yes	
1998-20818-004	Improving controls for municipal court operations.	No	No change
1998-20818-005	Indirect cost plan utilized is several years old contrary to federal requirements.	No	No change
1998-20818-006	Questioned costs of \$39,776 for not complying with competitive bidding requirements.	Yes	Testing did not reveal any items that should have been competitively bid but were not.
1998-20818-007	Questioned costs of \$37,607 for charging health insurance claims to the CDBG grant without proper approval.	Yes	City no longer charges employees health insurance claims to grant.
1998-20818-008	Time allocation sheets are not being prepared for employees who charge a portion of their time to the federal grant.	No	Not corrected



STATE OF OHIO
OFFICE OF THE AUDITOR

JIM PETRO, AUDITOR OF STATE

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CITY OF EAST CLEVELAND

CUYAHOGA COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
APRIL 17, 2001**