



Dave Yost • Auditor of State

**CITY OF EAST CLEVELAND
CUYAHOGA COUNTY**

TABLE OF CONTENTS

TITLE	PAGE
Independent Accountants' Report.....	1
Management's Discussion & Analysis.....	3
Financial Statements.....	11
Notes to the Financial Statements.....	21
Federal Awards Expenditures Schedule.....	43
Notes to the Federal Awards Expenditures Schedule.....	44
Independent Accountants' Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Required by <i>Government Auditing Standards</i>	45
Independent Accountants' Report on Compliance with Requirements Applicable To Each Major Federal Program and on Internal Control Over Compliance In Accordance With OMB Circular A-133.....	47
Schedule of Findings.....	49
Schedule of Prior Audit Findings and Questioned Costs.....	61

This Page Intentionally Left Blank.



Dave Yost • Auditor of State

INDEPENDENT ACCOUNTANTS' REPORT

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

To the Members of City Council:

We have audited the accompanying financial statements of the governmental activities, business type activities, each major fund, and the aggregate remaining fund information of the City of East Cleveland, Cuyahoga County, Ohio, (the City) as of and for the year ended December 31, 2006, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City's management.

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

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective modified cash financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of East Cleveland, Cuyahoga County, Ohio, as of December 31, 2006, and the respective changes in modified cash financial position, thereof and the respective budgetary comparison for the General and Street Funds thereof for the year then ended in conformity with the basis of accounting Note 2 describes.

As discussed in Note 17 to the financial statements, the City has accumulated unpaid bills which if processed would result in a negative fund balance. Note 17 describes Management's lack of a formal plan regarding these matters. The financial statements do not include any adjustments that might result from the outcome of this uncertainty.

As described in Note 4 to the financial statements, the City has restated the January 1, 2006 net assets for the Water and Sewer Proprietary Funds.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 23, 2011, on our consideration of the City's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. While we did not opine on the internal control over financial reporting or on compliance, that report describes the scope of our testing of internal control over financial reporting and compliance, and the results of that testing. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*. You should read it in conjunction with this report in assessing the results of our audit.

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

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



Dave Yost
Auditor of State

December 23, 2011

City of East Cleveland, Ohio
Management's Discussion and Analysis
For the Year Ended December 31, 2006
Unaudited

The discussion and analysis of the City of East Cleveland's financial performance provides an overview of the City's financial activities for the year ended December 31, 2006, within the limitations of the City's modified cash basis accounting. The intent of this discussion and analysis is to look at the City's financial performance as a whole.

Financial Highlights

Highlights for 2006 are as follows:

In total, the City's net assets decreased 14 percent from the prior year; Governmental activities increased \$1,231,794, while business-type activities decreased \$1,659,111. The significant increase for governmental activities was based on revenues exceeding expenditures for the year due to an increase in revenues received during the year. The significant decrease in business-type activities was based on an increase in expenditures for the year and not enough revenue to cover them.

General revenues made up 67 percent of the total revenues for governmental activities in 2006, and of this amount, 45 percent was provided through municipal income taxes, the most critical of the City's revenue sources.

During 2006, the Financial Planning and Supervision Committee for the City was terminated, and the City was released from fiscal emergency by the Ohio State Auditor after more than seventeen years.

Using the Basic Financial Statements

Report Components

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

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

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

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

City of East Cleveland, Ohio
Management's Discussion and Analysis
For the Year Ended December 31, 2006
Unaudited

Basis of Accounting

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

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

Reporting the City as a Whole

The statement of net assets and the statement of activities reflect how the City did financially during 2006, within the limitations of modified cash basis accounting. The statement of net assets presents the cash balances of the governmental and business-type activities of the City at year end. The statement of activities compares cash disbursements with program receipts for each governmental program and business-type activity. Program receipts include charges paid by the recipient of the program's goods or services and grants and contributions restricted to meeting the operational or capital requirements of a particular program. General receipts are all receipts not classified as program receipts. The comparison of cash disbursements with program receipts identifies how each governmental function or business-type activity draws from the City's general receipts.

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

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

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

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

City of East Cleveland, Ohio
Management's Discussion and Analysis
For the Year Ended December 31, 2006
Unaudited

Reporting the City's Most Significant Funds

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

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

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

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

The City as a Whole

Table 1 provides a summary of the City's net assets for 2006 compared to 2005 on a modified cash basis:

Table 1
Net Assets

	Governmental Activities		Business-Type Activities		Totals	
	2006	2005	2006	2005	2006	2005
Assets						
Equity in Pooled Cash and Cash Equivalents	\$2,416,528	\$2,249,491	\$0	\$612,899	\$2,416,528	\$2,862,390
Cash and Cash Equivalents in Segregated Accounts	180,270	158,443	0	0	180,270	158,443
Cash and Cash Equivalents with Fiscal/Escrow Agents	0	3,282	0	0	0	3,282
Internal Balance	1,046,212	0	(1,046,212)	0	0	0
Total Assets	\$3,643,010	\$2,411,216	(\$1,046,212)	\$612,899	\$2,596,798	\$3,024,115
Net Assets						
Restricted for:						
Capital Projects	881,766	673,529	0	0	881,766	673,529
Debt Service	12,222	15,504	0	0	12,222	15,504
Other Purposes	1,156,629	1,234,877	0	0	1,156,629	1,234,877
Unrestricted (Deficit)	1,592,393	487,306	(1,046,212)	612,899	546,181	1,100,205
Total Net Assets	\$3,643,010	\$2,411,216	(\$1,046,212)	\$612,899	\$2,596,798	\$3,024,115

City of East Cleveland, Ohio
Management's Discussion and Analysis
For the Year Ended December 31, 2006
Unaudited

In total, assets decreased \$427,317. For governmental activities, revenues increased mainly due to the receipt of Community Development Block Grant (CDBG) money received for the upkeep of the community, as well as a new Ohio Public Works Commission (OPWC) loan for the Windemere/Idlewood/Knowles road improvement project. An increase in expenditures is reflected from work done on these projects. For business-type activities, net assets decreased significantly due to expenditures exceeding revenues received during the year. Water and Sewer rates increased during the year, however, the increase was not enough to cover the increase in expenditures for the year.

Table 2 reflects the changes in net assets on a modified cash basis in 2006 and 2005 for governmental activities and business-type activities.

Table 2
Changes in Net Assets

	Governmental Activities		Business - Type Activities		Total	
	2006	2005	2006	2005	2006	2005
Receipts:						
Program Receipts:						
Charges for Services and Sales	\$2,668,211	\$2,733,090	\$7,855,313	\$8,930,600	\$10,523,524	\$11,663,690
Operating Grants and Contributions	3,850,791	2,761,206	0	0	3,850,791	2,761,206
Capital Grants and Contributions	2,948,467	52,423	167,799	0	3,116,266	52,423
Total Program Receipts	9,467,469	5,546,719	8,023,112	8,930,600	17,490,581	14,477,319
General Receipts:						
Property Taxes	2,964,059	2,406,387	0	0	2,964,059	2,406,387
Municipal Income Taxes	6,830,955	6,966,401	0	0	6,830,955	6,966,401
Hotel Taxes	2,040	0	0	0	2,040	0
Grants and Entitlements	3,859,591	4,419,615	0	0	3,859,591	4,419,615
Interest	236,682	37,951	1,878	11,276	238,560	49,227
Local Government Borrowing	0	838,880	0	2,074,720	0	2,913,600
Sale of Capital Assets	1,000	0	0	0	1,000	0
Proceeds of OPWC Loans	888,429	0	0	0	888,429	0
Miscellaneous	511,317	629,186	43,960	33,773	555,277	662,959
Total General Receipts	15,294,073	15,298,420	45,838	2,119,769	15,339,911	17,418,189
Total Receipts	24,761,542	20,845,139	8,068,950	11,050,369	32,830,492	31,895,508
Disbursements:						
General Government	3,743,111	5,101,309	0	0	3,743,111	5,101,309
Security of Persons and Property	8,979,613	9,472,662	0	0	8,979,613	9,472,662
Public Health Services	0	3,164	0	0	0	3,164
Leisure Time Activities	280,970	192,901	0	0	280,970	192,901
Basic Utility Services	1,262,009	1,054,105	0	0	1,262,009	1,054,105
Community Development	3,956,068	2,841,749	0	0	3,956,068	2,841,749
Transportation	812,661	850,179	0	0	812,661	850,179
Capital Outlay	3,892,008	178,443	0	0	3,892,008	178,443
Debt Service	603,308	394,347	0	0	603,308	394,347
Water	0	0	4,808,171	4,702,440	4,808,171	4,702,440
Sewer	0	0	4,919,890	4,121,280	4,919,890	4,121,280
Total Program Expenses	23,529,748	20,088,859	9,728,061	8,823,720	33,257,809	28,912,579
Change in Net Assets	1,231,794	756,280	(1,659,111)	2,226,649	(427,317)	2,982,929
Net Assets (Deficit) Beginning of Year	2,411,216	1,654,936	612,899	(1,613,750)	3,024,115	41,186
Net Assets (Deficit) End of Year	\$3,643,010	\$2,411,216	(\$1,046,212)	\$612,899	\$2,596,798	\$3,024,115

City of East Cleveland, Ohio
Management's Discussion and Analysis
For the Year Ended December 31, 2006
Unaudited

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

Table 3
Total and Net Cost of Program Services

	Total Cost of Services 2006	Total Cost of Services 2005	Net Cost of Services 2006	Net Cost of Services 2005
General Government	\$3,743,111	\$5,101,309	(\$3,129,670)	(\$4,415,410)
Security of Persons and Property	8,979,613	9,472,662	(6,998,678)	(7,583,707)
Public Health and Welfare	0	3,164	0	(3,164)
Leisure Time Activities	280,970	192,901	(238,940)	(164,512)
Basic Utility Services	1,262,009	1,054,105	(1,073,226)	(919,267)
Community Development	3,956,068	2,841,749	(908,752)	(679,634)
Transportation	812,661	850,179	921,370	(203,656)
Capital Outlay	3,892,008	178,443	(2,031,075)	(178,443)
Debt Service	603,308	394,347	(603,308)	(394,347)
Total	\$23,529,748	\$20,088,859	(\$14,062,279)	(\$14,542,140)

Governmental Activities

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

The City's income tax was established to be effective July 1, 1968 at a rate of one percent. This rate was effective until June 30, 1976. Beginning July 1, 1976 the rate was increased to 1.5 percent. On September 1, 1982, the rate increased to 2 percent. It is at that level as of December 31, 2006. The City does not allow any credit of the City's income tax rate for taxes paid to other political subdivisions in Ohio. The decrease in municipal income taxes revenue is due to income tax department cases being backlogged in the court. The income tax department aggressively pursues non-filing and late filing residents. When the court makes a judgment, the money is collected or a payment plan is established.

The increase in operating grants and contributions is due to the City receiving increased amounts for various grants.

The increase in capital grants and contributions is due to the City receiving grant monies from OPWC for street resurfacing projects.

The operations of the City's police and fire departments accounts for the largest expenses of the governmental activities, representing 41 percent of the total governmental activities expenses. The City's police department is a full-time 24-hour a day, 365-days a year department, with a full-time chief and 47 patrolmen. The fire department is staffed by 54 full time firefighters. The police and fire departments are operated with general fund dollars. The City allocates monies from the inside millage to the police pension and fire pension special revenue funds to pay the employer's portion of retirement and disability benefits to the Ohio Police and Fire Pension Fund. General government expenses accounts for 17 percent of governmental expense, while operations for the City's Community Development program accounts for 18 percent of total government expenses.

City of East Cleveland, Ohio
Management's Discussion and Analysis
For the Year Ended December 31, 2006
Unaudited

Business-Type Activities

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

The water utility serves approximately 5,000 customer accounts, which include both residential and commercial customers. Of the 5,000 customers, 300 are commercial and 500 are homestead customers who pay a reduced rate.

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

The City pays \$26.08 per 1,000 cubic feet of water purchased to Northeast Ohio Regional Sewer District for sewer treatment services. The City owns and maintains the sewer lines throughout the City. The residential and commercial customers are charged \$45.22 per 1,000 cubic feet of water purchased for these sewer services. Homestead customers pay a reduced rate of \$35.63 per 1,000 cubic feet for these services.

The revenues and expenses for both these utilities are reported under the business-type activities in Table 2. The revenues are derived primarily from charges for services. In 2006, this amount of \$7,855,313 accounted for 97 percent of the total revenues. The total expenses for the utilities were \$9,728,061, a \$904,341 increase over 2005 expenses.

The City's Funds

Information about the City's governmental funds begins on page 16. These funds are accounted for using the modified cash basis of accounting. All governmental funds had revenues of \$23,872,113 and expenditures of \$23,529,748. The City's governmental funds reflected an increase in fund balances of \$1,231,794 or 51 percent. The majority of this increase was due to implementation of a traffic violation program using cameras to document speeding violations.

Budgeting Highlights

The City's budget is prepared according to the laws of the State of Ohio and is based on accounting for certain transactions on a cash basis for receipts, expenditures, and encumbrances. The most significant budgeted fund is the general fund. The legal level of budgetary control is at the department level for the general fund and the fund level for all other funds. Any budgetary modifications at these levels may only be made by an ordinance of City Council. During 2006, a number of supplemental appropriation measures were authorized by the City Council. Administrative control of the budget is maintained through the establishment of detailed line-item budgets. Transfers are contained in the annual appropriation measure and are permitted once the permanent appropriation measure has been passed by City Council.

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

City of East Cleveland, Ohio
Management's Discussion and Analysis
For the Year Ended December 31, 2006
Unaudited

Line item reports are reviewed regularly by the Finance Director. The department heads also monitor their appropriations.

For the general fund, original and final budgeted revenues were \$15,580,045 and actual revenues were \$16,057,869. The majority of the increase in actual revenue over the final budgeted amounts is due to initiating an automatic traffic enforcement revenue program which began half way through 2006.

Also in the general fund, the original and final budgeted expenditures and final budgeted expenditures were \$15,781,605. The actual expenditures were \$14,836,174. The City's ending unencumbered cash balance in the general fund was \$1,630,001.

Debt Administration

The outstanding debt for the City of East Cleveland as of December 31, 2006 was \$8,777,933. This balance reflected an increase of \$468,338 over the previous year's balance of \$8,309,595.

Table 4
Outstanding Debt at December 31

	Governmental Activities		Business-Type Activities		Totals	
	2006	2005	2006	2005	2006	2005
OPWC Loans	\$4,175,807	\$3,292,675	\$387,275	\$408,209	\$4,563,082	\$3,700,884
Notes Payable	2,611,394	2,913,600	0	0	2,611,394	2,913,600
Police and Fire Liability	1,534,911	1,562,240	0	0	1,534,911	1,562,240
Capital Leases	68,546	132,871	0	0	68,546	132,871
Totals	\$8,390,658	\$7,901,386	\$387,275	\$408,209	\$8,777,933	\$8,309,595

During 2006, principal payments totaling \$88,341 were made on the City's vehicle lease during the year leaving an outstanding principal balance at December 31, 2006 of \$44,530. The City entered into a new capital lease for a copier in 2006 for \$25,516. For 2006, principal payments for the new lease totaled to \$1,500.

The Ohio Public Works Commission (OPWC) governmental activities loans are comprised of three separate, zero percent interest loans. The purpose of the loans is for the construction and improvement of streets. The loans will be paid over a period of 20 years from the general fund.

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

See Notes 12 and 13 in the financial statements for more information regarding the City's debt.

Current Financial Issues

The City of East Cleveland continues to struggle to maintain a revenue base to deliver services to the citizens of East Cleveland. Over the last thirteen years, income tax collections have increased from \$6,630,088, in 1992 to \$6,966,401 in 2005 or 5.07 percent, on a cash basis. Income tax collections for 2006 are \$6,830,955 on a cash basis.

City of East Cleveland, Ohio
Management's Discussion and Analysis
For the Year Ended December 31, 2006
Unaudited

The population of the City continues to decline at an average rate of 323 residents per year from 2000. Due to the decline in population and other current economic factors, income tax collections decreased by \$135,446 from 2005 to 2006 on a cash basis.

The Administration has made it a priority to review the current fee schedules to determine if the various rates currently being charged are adequate, considering the current operations. These fees include fire inspection fees, civic center fees and water rates. The City is monitoring its utility rates for all City customers in order to make the utility rates more representative of the actual cost of producing and administering the utilities. Both the administration and City Council have declared their intention of reviewing rates on a more frequent basis.

Contacting the City's Finance Department

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

City of East Cleveland, Ohio
Statement of Net Assets - Modified Cash Basis
December 31, 2006

	Governmental Activities	Business - Type Activities	Total
Assets			
Equity in Pooled Cash and Cash Equivalents	\$2,416,528	\$0	\$2,416,528
Cash and Cash Equivalents in Segregated Accounts	180,270	0	180,270
Internal Balance	1,046,212	(1,046,212)	0
<i>Total Assets</i>	<u>\$3,643,010</u>	<u>(\$1,046,212)</u>	<u>\$2,596,798</u>
Net Assets			
Restricted for:			
Capital Projects	\$881,766	\$0	\$881,766
Debt Service	12,222	0	12,222
Streets	437,964	0	437,964
Local Law Enforcement	275,433	0	275,433
Other Purposes	443,232	0	443,232
Unrestricted (Deficit)	1,592,393	(1,046,212)	546,181
<i>Total Net Assets</i>	<u>\$3,643,010</u>	<u>(\$1,046,212)</u>	<u>\$2,596,798</u>

See accompanying notes to the basic financial statements

City of East Cleveland, Ohio
Statement of Activities - Modified Cash Basis
For the Year Ended December 31, 2006

	Program Cash Receipts			
	Cash Disbursements	Charges for Services and Sales	Operating Grants and Contributions	Capital Grants and Contributions
Governmental Activities				
General Government	\$3,743,111	\$613,441	\$0	\$0
Security of Persons and Property	8,979,613	1,735,842	245,093	0
Leisure Time Activities	280,970	42,030	0	0
Basic Utility Services	1,262,009	188,783	0	0
Community Development	3,956,068	25,498	3,021,818	0
Transportation	812,661	62,617	583,880	1,087,534
Capital Outlay	3,892,008	0	0	1,860,933
Debt Service:				
Principal Retirement	424,673	0	0	0
Interest and Fiscal Charges	178,635	0	0	0
<i>Total Governmental Activities</i>	<u>23,529,748</u>	<u>2,668,211</u>	<u>3,850,791</u>	<u>2,948,467</u>
Business Type Activities				
Water	4,808,171	3,987,866	0	167,799
Sewer	4,919,890	3,867,447	0	0
<i>Total Business-Type Activities</i>	<u>9,728,061</u>	<u>7,855,313</u>	<u>0</u>	<u>167,799</u>
<i>Total</i>	<u>\$33,257,809</u>	<u>\$10,523,524</u>	<u>\$3,850,791</u>	<u>\$3,116,266</u>

General Receipts

Property Taxes Levied for:

 General Purposes

 Capital Projects

 Other Purposes

Municipal Income Taxes

Hotel Taxes

Grants and Entitlements not Restricted to Specific Programs

Interest

Sale of Capital Assets

Proceeds of OPWC Loans

Miscellaneous

Total General Receipts

Change in Net Assets

Net Assets Beginning of Year - Restated (See Note 4)

Net Assets (Deficit) End of Year

See accompanying notes to the basic financial statements

Net (Disbursements) Receipts and Changes in Net Assets

<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Total</u>
(\$3,129,670)	\$0	(\$3,129,670)
(6,998,678)	0	(6,998,678)
(238,940)	0	(238,940)
(1,073,226)	0	(1,073,226)
(908,752)	0	(908,752)
921,370	0	921,370
(2,031,075)	0	(2,031,075)
(424,673)	0	(424,673)
(178,635)	0	(178,635)
<u>(14,062,279)</u>	<u>0</u>	<u>(14,062,279)</u>
0	(652,506)	(652,506)
0	(1,052,443)	(1,052,443)
<u>0</u>	<u>(1,704,949)</u>	<u>(1,704,949)</u>
<u>(14,062,279)</u>	<u>(1,704,949)</u>	<u>(15,767,228)</u>
2,543,028	0	2,543,028
323,870	0	323,870
97,161	0	97,161
6,830,955	0	6,830,955
2,040	0	2,040
3,859,591	0	3,859,591
236,682	1,878	238,560
1,000	0	1,000
888,429	0	888,429
511,317	43,960	555,277
<u>15,294,073</u>	<u>45,838</u>	<u>15,339,911</u>
1,231,794	(1,659,111)	(427,317)
<u>2,411,216</u>	<u>612,899</u>	<u>3,024,115</u>
<u>\$3,643,010</u>	<u>(\$1,046,212)</u>	<u>\$2,596,798</u>

City of East Cleveland, Ohio
Statement of Assets and Fund Balances - Modified Cash Basis
Governmental Funds
December 31, 2006

	General	Street	Transfer Station	Other Governmental Funds	Total Governmental Funds
Assets					
Equity in Pooled Cash and Cash Equivalents	\$546,727	\$437,964	\$548,843	\$505,912	\$2,039,446
Cash and Cash Equivalents in Segregated Accounts	0	0	0	180,270	180,270
Interfund Receivable	1,423,294	0	0	0	1,423,294
<i>Total Assets</i>	<u>\$1,970,021</u>	<u>\$437,964</u>	<u>\$548,843</u>	<u>\$686,182</u>	<u>\$3,643,010</u>
Liabilities					
Interfund Payable	\$0	\$0	\$0	\$377,082	\$377,082
Fund Balances					
Reserved:					
Reserved for Encumbrances	340,020	63,420	0	1,380,345	1,783,785
Unreserved:					
Undesignated (Deficit), Reported in:					
General Fund	1,630,001	0	0	0	1,630,001
Special Revenue Funds	0	374,544	0	(1,390,309)	(1,015,765)
Debt Service Fund	0	0	0	12,222	12,222
Capital Projects Funds	0	0	548,843	306,842	855,685
<i>Total Fund Balances</i>	<u>1,970,021</u>	<u>437,964</u>	<u>548,843</u>	<u>309,100</u>	<u>3,265,928</u>
<i>Total Liabilities and Fund Balance</i>	<u>\$1,970,021</u>	<u>\$437,964</u>	<u>\$548,843</u>	<u>\$686,182</u>	<u>\$3,643,010</u>

See accompanying notes to the basic financial statements

City of East Cleveland, Ohio
Statement of Receipts, Disbursements and Changes in Fund Balances - Modified Cash Basis
Governmental Funds
For the Year Ended December 31, 2006

	General	Street	Transfer Station	Street Resurfacing	Other Governmental Funds	Total Governmental Funds
Receipts						
Municipal Income Taxes	\$6,830,955	\$0	\$0	\$0	\$0	\$6,830,955
Property Taxes	2,543,028	0	0	0	421,031	2,964,059
Hotel Taxes	2,040	0	0	0	0	2,040
Charges for Services	728,633	0	0	0	471,971	1,200,604
Fees, Licenses and Permits	284,678	0	0	0	52,471	337,149
Fines and Forfeitures	1,088,908	0	0	0	41,550	1,130,458
Intergovernmental	3,859,591	583,880	0	2,948,467	3,266,911	10,658,849
Interest	236,682	0	0	0	0	236,682
Miscellaneous	483,354	0	0	0	27,963	511,317
<i>Total Receipts</i>	<u>16,057,869</u>	<u>583,880</u>	<u>0</u>	<u>2,948,467</u>	<u>4,281,897</u>	<u>23,872,113</u>
Disbursements						
Current:						
General Government	3,712,456	0	0	0	30,655	3,743,111
Security of Persons and Property	8,208,803	0	0	0	770,810	8,979,613
Leisure Time Activities	280,970	0	0	0	0	280,970
Basic Utility Services	1,262,009	0	0	0	0	1,262,009
Community Development	170,456	0	0	0	3,785,612	3,956,068
Transportation	418,594	394,067	0	0	0	812,661
Capital Outlay	0	0	1,500	3,836,896	53,612	3,892,008
Debt Service:						
Principal Retirement	331,083	5,297	0	0	88,293	424,673
Interest and Fiscal Charges	111,783	0	0	0	66,852	178,635
<i>Total Disbursements</i>	<u>14,496,154</u>	<u>399,364</u>	<u>1,500</u>	<u>3,836,896</u>	<u>4,795,834</u>	<u>23,529,748</u>
<i>Excess of Receipts Over (Under) Disbursements</i>	<u>1,561,715</u>	<u>184,516</u>	<u>(1,500)</u>	<u>(888,429)</u>	<u>(513,937)</u>	<u>342,365</u>
Other Financing Sources (Uses)						
Sale of Capital Assets	1,000	0	0	0	0	1,000
Proceeds of OWPC Loans	0	0	0	0	888,429	888,429
Transfers In	0	0	0	0	80,000	80,000
Transfers Out	(80,000)	0	0	0	0	(80,000)
<i>Total Other Financing Sources (Uses)</i>	<u>(79,000)</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>968,429</u>	<u>889,429</u>
<i>Net Change in Fund Balances</i>	1,482,715	184,516	(1,500)	(888,429)	454,492	1,231,794
<i>Fund Balances Beginning of Year</i>	487,306	253,448	550,343	0	1,120,119	2,411,216
<i>Fund Balances End of Year</i>	<u>\$1,970,021</u>	<u>\$437,964</u>	<u>\$548,843</u>	<u>(\$888,429)</u>	<u>\$1,574,611</u>	<u>\$3,643,010</u>

See accompanying notes to the basic financial statements

City of East Cleveland, Ohio
Statement of Receipts, Disbursements and Changes
In Fund Balance - Budget and Actual - Budget Basis
General Fund
For the Year Ended December 31, 2006

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
Receipts				
Municipal Income Taxes	\$6,750,000	\$6,750,000	\$6,830,955	\$80,955
Property Taxes	1,750,000	1,750,000	2,543,028	793,028
Hotel Taxes	4,000	4,000	2,040	(1,960)
Charges for Services	1,248,000	1,248,000	728,633	(519,367)
Fees, Licenses and Permits	552,000	552,000	284,678	(267,322)
Fines and Forfeitures	569,000	569,000	1,088,908	519,908
Intergovernmental	4,526,045	4,526,045	3,859,591	(666,454)
Interest	17,500	17,500	236,682	219,182
Miscellaneous	163,500	163,500	483,354	319,854
<i>Total Receipts</i>	<u>15,580,045</u>	<u>15,580,045</u>	<u>16,057,869</u>	<u>477,824</u>
Disbursements				
Current:				
General Government	4,607,088	4,607,088	3,970,849	636,239
Security of Persons and Property	8,347,299	8,347,299	8,248,225	99,074
Leisure Time Activities	153,287	153,287	287,353	(134,066)
Basic Utility Services	1,428,633	1,428,633	1,269,851	158,782
Community Development	248,319	248,319	189,109	59,210
Transportation	426,438	426,438	427,921	(1,483)
Debt Service:				
Principal Retirement	459,396	459,396	331,083	128,313
Interest and Fiscal Charges	111,145	111,145	111,783	(638)
<i>Total Disbursements</i>	<u>15,781,605</u>	<u>15,781,605</u>	<u>14,836,174</u>	<u>945,431</u>
<i>Excess of Receipts Over (Under) Disbursements</i>	<u>(201,560)</u>	<u>(201,560)</u>	<u>1,221,695</u>	<u>1,423,255</u>
Other Financing Sources (Uses)				
Sale of Capital Assets	3,000	3,000	1,000	(2,000)
Transfers Out	(150,000)	(150,000)	(80,000)	70,000
Advances In	23,000	23,000	0	(23,000)
<i>Total Other Financing Sources (Uses)</i>	<u>(124,000)</u>	<u>(124,000)</u>	<u>(79,000)</u>	<u>45,000</u>
<i>Net Change in Fund Balance</i>	<u>(325,560)</u>	<u>(325,560)</u>	<u>1,142,695</u>	<u>1,468,255</u>
<i>Fund Balance Beginning of Year</i>	79,582	79,582	79,582	0
Prior Year Encumbrances Appropriated	407,724	407,724	407,724	0
<i>Fund Balance End of Year</i>	<u>\$161,746</u>	<u>\$161,746</u>	<u>\$1,630,001</u>	<u>\$1,468,255</u>

See accompanying notes to the basic financial statements

City of East Cleveland, Ohio
*Statement of Receipts, Disbursements and Changes
 In Fund Balance - Budget and Actual -Budget Basis
 Street Fund
 For the Year Ended December 31, 2006*

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
Receipts				
Intergovernmental	\$520,200	\$520,200	\$583,880	\$63,680
Disbursements				
Current:				
Transportation	499,091	499,091	457,487	41,604
Debt Service:				
Principal Retirement	5,297	5,297	5,297	0
<i>Total Disbursements</i>	<u>504,388</u>	<u>504,388</u>	<u>462,784</u>	<u>41,604</u>
<i>Net Change in Fund Balance</i>	15,812	15,812	121,096	105,284
<i>Fund Balance Beginning of Year</i>	210,739	210,739	210,739	0
Prior Year Encumbrances Appropriated	<u>42,709</u>	<u>42,709</u>	<u>42,709</u>	<u>0</u>
<i>Fund Balance End of Year</i>	<u>\$269,260</u>	<u>\$269,260</u>	<u>\$374,544</u>	<u>\$105,284</u>

See accompanying notes to the basic financial statements

City of East Cleveland, Ohio
Statement of Fund Net Assets - Modified Cash Basis
Enterprise Funds
December 31, 2006

	Water	Sewer	Total
Assets	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>
Liabilities			
Interfund Payable	<u>\$385,443</u>	<u>\$660,769</u>	<u>\$1,046,212</u>
Net Assets			
Unrestricted	<u>(\$385,443)</u>	<u>(\$660,769)</u>	<u>(\$1,046,212)</u>

See accompanying notes to the basic financial statements

City of East Cleveland, Ohio
*Statement of Receipts,
Disbursements and Changes in Fund Net Assets - Modified Cash Basis
Enterprise Funds
For the Year Ended December 31, 2006*

	Water	Sewer	Total
Operating Receipts			
Charges for Services	\$3,987,866	\$3,867,447	\$7,855,313
Miscellaneous	43,960	0	43,960
<i>Total Operating Receipts</i>	<u>4,031,826</u>	<u>3,867,447</u>	<u>7,899,273</u>
Operating Disbursements			
Personal Services	566,070	389,901	955,971
Contractual Services	3,906,499	4,459,173	8,365,672
Materials and Supplies	107,446	27,978	135,424
Capital Outlay	175,134	5,650	180,784
Miscellaneous	32,088	37,188	69,276
<i>Total Operating Disbursements</i>	<u>4,787,237</u>	<u>4,919,890</u>	<u>9,707,127</u>
<i>Operating Loss</i>	<u>(755,411)</u>	<u>(1,052,443)</u>	<u>(1,807,854)</u>
Non-Operating Receipts (Disbursements)			
Intergovernmental	167,799	0	167,799
Interest	920	958	1,878
Principal Retirement	(20,934)	0	(20,934)
<i>Total Non-Operating Receipts (Disbursements)</i>	<u>147,785</u>	<u>958</u>	<u>148,743</u>
<i>Change in Net Assets</i>	(607,626)	(1,051,485)	(1,659,111)
<i>Net Assets Beginning of Year - Restated (See Note 4)</i>	<u>222,183</u>	<u>390,716</u>	<u>612,899</u>
<i>Net Assets (Deficit) End of Year</i>	<u><u>(\$385,443)</u></u>	<u><u>(\$660,769)</u></u>	<u><u>(\$1,046,212)</u></u>

See accompanying notes to the basic financial statements

City of East Cleveland, Ohio
Statement of Fiduciary Assets and Liabilities - Modified Cash Basis
Agency Funds
December 31, 2006

Assets

Equity in Pooled Cash and Cash Equivalents	\$11,591
Cash and Cash Equivalents in Segregated Accounts	<u>320,195</u>

<i>Total Assets</i>	<u><u>\$331,786</u></u>
---------------------	-------------------------

Liabilities

Deposits Held and Due to Others	<u><u>\$331,786</u></u>
---------------------------------	-------------------------

See accompanying notes to the basic financial statements

City of East Cleveland, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2006

Note 1 - Reporting Entity

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

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

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

A reporting entity is composed of the primary government, component units, and other organizations that are included to ensure that the financial statements are not misleading. The primary government of the City consists of all funds, agencies, departments, and offices that are not legally separate from the City. For the City of East Cleveland, this includes the departments that provide the following services: police protection, fire fighting and prevention, street maintenance and repairs, public improvements, community development (planning and zoning), culture and recreation, refuse collection, water, sewer 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 the deficits of, or provide financial support to, the organization. Component units may also include organizations that are fiscally dependent on the City in that the City approves the budget, the issuance of debt or the levying of taxes. Currently, the City has no component units.

Note 2 - Summary of Significant Accounting Policies

As discussed further in Note 2.C, these financial statements are presented on a modified cash basis of accounting. This modified cash basis of accounting differs from accounting principles generally accepted in the United States of America (GAAP). Generally accepted accounting principles include all relevant Governmental Accounting Standards Board (GASB) pronouncements, which have been applied to the extent they are applicable to the modified cash basis of accounting. In the government-wide financial statements and the fund financial statements for the proprietary funds, Financial Accounting Standards Board (FASB) pronouncements and Accounting Principles Board (APB) opinions issued on or before November 30, 1989, have been applied, to the extent they are applicable to the modified cash basis of accounting, unless those pronouncements conflict with or contradict GASB pronouncements, in which case GASB prevails. The City does not apply FASB statements issued after November 30, 1989, to its business-type activities and to its enterprise funds. Following are the more significant of the City's accounting policies.

City of East Cleveland, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2006

A. Basis of Presentation

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

Government-Wide Financial Statements

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

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

Fund Financial Statements

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

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

B. Fund Accounting

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

City of East Cleveland, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2006

Governmental Funds

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

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

Street Fund - This fund accounts for the State gasoline tax and motor vehicle registration fees designated for maintenance and repair of streets within the City.

Transfer Station Fund - This fund accounts for proceeds from the noise abatement law suit to be used only to update and renovate the transfer station.

Street Resurfacing Fund This fund accounts for monies received from the Ohio Public Works Commission to finance road construction projects.

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

Proprietary Funds

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

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

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

Fiduciary Funds

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

C. Basis of Accounting

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

City of East Cleveland, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2006

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

D. Budgetary Process

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

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

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

E. Cash and Investments

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

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.

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

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

City of East Cleveland, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2006

During 2006, investments were limited to STAROhio, mutual funds and repurchase agreements.

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

STAROhio is an investment pool, managed by the State Treasurer's Office which allows governments within the State to pool their funds for investment purposes. STAROhio is not registered with the SEC as an investment company, but does operate in a manner consistent with Rule 2a7 of the Investment Company Act of 1940. Investments in STAROhio are valued at STAROhio's share price which is the price the investment could be sold for on December 31, 2006.

Interest earnings are allocated to City funds according to State statutes, the Charter and Codified Ordinances of the City, grant requirements, or debt related restrictions. Interest receipts credited to the General Fund during 2006 were \$236,682 which includes \$119,392 assigned from other City funds.

F. Inventory and Prepaid Items

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

G. Capital Assets

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

H. Interfund Receivables/Payables

The fund financial statements report outstanding interfund loans as interfund receivables/payables. Interfund loans which do not represent available expendable resources are offset by a fund balance reserve account. Interfund balances are eliminated in the statement of net assets, except for any net residual amounts due between governmental and business-type activities, which are presented as internal balances.

I. Accumulated Leave

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

J. Employer Contributions to Cost-Sharing Pension Plans

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

City of East Cleveland, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2006

K. Long-Term Obligations

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

L. Net Assets

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

M. Fund Balance Reserves

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

N. Interfund Transactions

Transfers between governmental and business-type activities on the government-wide financial statements are reported in the same manner as general receipts. Transfers between governmental activities are eliminated on the government-wide financial statements. Interfund payments for services provided and used are not eliminated.

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

Note 3 - Budgetary Basis of Accounting

The budgetary basis as provided by law is based upon accounting for certain transactions on the basis of cash receipts, disbursements, and encumbrances. The Statement of Receipts, Disbursements and Changes in Fund Balance – Budget and Actual – Budget Basis presented for the general fund and street fund are prepared on the budgetary basis to provide a meaningful comparison of actual results with the budget. The difference between the budgetary basis and the modified cash basis is that outstanding year end encumbrances are treated as disbursements (budgetary basis) rather than as a reservation of fund balance (modified cash basis), and outstanding year end advances are treated as an other financing source or use (budgetary basis) rather than as an interfund receivable or payable (modified cash basis). The encumbrances outstanding at year end (budgetary basis) in the general fund and street special revenue fund amounted to \$340,020 and \$63,420, respectively.

City of East Cleveland, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2006

Note 4 - Restatement of Net Assets

During 2006, the City determined that the consumer deposits agency fund should be included in the water and sewer proprietary funds. The restatement had the following effect on net assets of the City as they were previously reported.

	Water	Sewer	Total
Net Assets at December 31, 2005	\$35,041	\$203,574	\$238,615
Consumer Deposits	187,142	187,142	374,284
Restated Net Assets at December 31, 2005	\$222,183	\$390,716	\$612,899

Note 5 - Accountability and Compliance

A. Accountability

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

Special Revenue Funds:	
Older Americans	(\$55,518)
Community Development	(289,218)
Community Cops	(5,333)
Special Purpose Grant	(5,933)
Home Program	(14,579)
Domestic Violence	(11,758)
VOCA	(76)
Enterprise Funds:	
Water	(385,443)
Sewer	(660,769)

B. Compliance

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

Fund	Estimated Revenues Plus Carryover Balance	Appropriations	Excess
Governmental Funds			
<i>Special Revenue Funds:</i>			
Police Accrued Liability	\$83,069	\$88,669	\$5,600
Fire Accrued Liability	101,911	118,590	16,679
Parks and Recreations	693	3,492	2,799
Old Americans	219,675	228,566	8,891
EMS	660,000	683,740	23,740
Community Development	2,270,112	2,880,301	610,189
Dare Grant	28,430	30,000	1,570
Home Program	1,973,366	2,131,387	158,021
Domestic Violence	21,316	25,100	3,784

City of East Cleveland, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2006

Fund	Estimated Revenues Plus Carryover Balance	Appropriations	Excess
Governmental Funds			
<i>Capital Projects Fund:</i>			
Street Resurfacing	\$800,000	\$1,100,000	\$300,000
Enterprise Funds			
Water	4,773,890	4,921,472	147,582
Sewer	5,359,294	5,581,446	222,152

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

Fund/Function	Appropriations	Expenditures Plus Encumbrances	Excess
General Fund:			
Leisure Time Activities			
Parks and Recreation			
Personal Services	\$105,674	\$239,647	\$133,973
Contractual Services	39,426	39,519	93
Community Environment			
Housing			
Personal Services	99,368	165,276	65,908
Capital Outlay	2,711	3,174	463
Transportation			
Service Department Administration			
Materials and Supplies	89,095	90,578	1,483
General Government			
Mayor			
Personal Services	159,444	200,364	40,920
Finance			
Contractual Services	64,200	66,046	1,846
Capital Outlay	158	898	740
Law Director			
Personal Services	276,472	312,171	35,699
Courts			
Personal Services	764,823	939,472	174,649
Lands and Building			
Personal Services	72,750	79,137	6,387
Materials and Supplies	4,313	8,933	4,620
Contractual Services	3,175	10,286	7,111
Human Resources			
Materials and Supplies	130,522	152,960	22,438

City of East Cleveland, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2006

Fund/Function	Appropriations	Expenditures Plus Encumbrances	Excess
<i>Special Revenue Funds:</i>			
Fire Accrued Liability			
Security of Persons and Property			
Personal Services	\$76,222	\$171,918	\$95,696
Older Americans			
Community Environment			
Personal Services	163,299	271,781	108,482
Materials and Supplies	1,633	6,930	5,297
Other	293	9,373	9,080
CSX Awards			
Community Environment			
Personal Services	0	12,618	12,618
Contractual Services	1,222	1,544	322
Home Program			
Community Environment			
Contractual Services	2,035,516	2,086,278	50,762
Domestic Violence			
Security of Persons and Property			
Contractual Services	15,251	34,977	19,726
Computerized Legalized Fees			
General Government			
Other	0	23,073	23,073
Engineering and Building			
General Government			
Contractual Services	2,945	6,083	3,138
Community Cops			
Security of Persons and Property			
Personal Services	0	5,333	5,333
VOCA			
Community Environment			
Contractual Services	11,720	25,230	13,510
Other	12,935	13,897	962
COPS Universal			
Security of Persons and Property			
Personal Services	0	758	758
 <i>Capital Projects Funds:</i>			
Transfer Station			
Capital Outlay	0	1,500	1,500
Street Resurfacing			
Capital Outlay	1,100,000	1,975,963	875,963
 <i>Enterprise Fund:</i>			
Water			
Contractual Services	4,083,851	4,234,033	150,182
Capital Outlay	23,572	116,168	92,596

City of East Cleveland, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2006

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

Fund	Actual Receipts Plus Unencumbered Cash	Final Appropriations	Excess
Older Americans III B/C	\$45,971	\$288,978	(\$243,007)
Special Purpose Grant (HUD)	(97,335)	0	(97,335)
Home Program Fund	139,045	1,735,451	(1,596,406)
Water	860,856	1,735,911	(875,055)
Sewer	427,075	1,190,806	(763,731)

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

Note 6 - Deposits and Investments

The City has chosen to follow State statutes and classify monies held by the City into three categories.

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

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

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

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

1. United States Treasury bills, bonds, notes, or any other obligation or security issued by the United States Treasury, or any other obligation guaranteed as to principal and interest by the United States;
2. Bonds, notes, debentures, or any other obligation or securities issued by any federal government agency or instrumentality, including, but not limited to, the Federal National Mortgage

City of East Cleveland, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2006

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

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

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

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

Investments

As of December 31, 2006, the City had the following investments:

Investment Type	Fair Value	Average Maturity (days)
Victory Federal Money Market Mutual Fund	\$3,045,533	30
STAROhio	530,347	39
Repurchase Agreements:		
Federal Home Loan Mortgage Corporation Notes	1,044,135	daily
Total Investments	\$4,620,015	

Interest Rate Risk. The City has no investment policy that addresses interest rate risk. State statute requires that an investment mature within five years from the date of purchase, unless matched to a specific obligation or debt of the City, and that an investment must be purchased with the expectation that

City of East Cleveland, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2006

it will be held to maturity. Repurchase agreements are limited to 30 days and the market value of the securities must exceed the principal value of the agreement by a least two percent and be marked to market daily.

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

Concentration of Credit Risk. The City places no limit on the amount it may invest in any one issuer. The following is the City's allocation as of December 31, 2006:

<u>Investment Issuer</u>	<u>Percentage of Investments</u>
Victory Federal Money Market Mutual Fund	65.92 %
STAROhio	11.48
Repurchase Agreements:	
Federal Home Loan Mortgage Corporation Notes	22.60

Note 7 – Income Taxes

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

Employers within the City are required to withhold income tax on employee compensation and remit the tax to the City either monthly or quarterly, as required. Corporations and other individual taxpayers are required to file a declaration annually and quarterly estimated tax payments are recommended.

Income tax proceeds are allocated to the general fund.

Note 8 - Property Taxes

Property taxes included amounts levied against all real, public utility, and tangible personal property located in the City. Property tax revenue received during 2006 for real and public utility property taxes represents collections of the 2005 taxes. Property tax payments received during 2006 for tangible personal property (other than public utility property) are for 2006 taxes.

2006 real property taxes are levied after October 1, 2006, on the assessed value as of January 1, 2006, the lien date. Assessed values are established by State law at 35 percent of appraised market value. 2006 real property taxes are collected in and intended to finance 2007.

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. 2006 public utility property taxes which became a lien December 31, 2005, are levied after October 1, 2006, and are collected in 2007 with real property taxes.

2006 tangible personal property taxes are levied after October 1, 2005, on the value as of December 31, 2005. Collections are made in 2006. Tangible personal property assessments are being phased out – the assessment percentage for all property including inventory for 2006 is 18.75 percent. This will be

City of East Cleveland, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2006

reduced to 12.5 percent for 2007, 6.25 percent for 2008 and zero for 2009. Payments by multi-county taxpayers are due September 20. Single county taxpayers may be 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 September 20.

The full tax rate for all City operations for the year ended December 31, 2006, was \$12.70 per \$1,000 of assessed value. The assessed values of real and tangible personal property upon which 2006 property tax receipts were based are as follows:

Real Property	\$206,374,720
Tangible Personal Property	9,412,081
Public Utility Property	10,615,010
Total Assessed Values	<u><u>\$226,401,811</u></u>

The County Treasurer collects property taxes on behalf of all taxing districts in the County, including the City of East Cleveland. The County Auditor periodically remits to the City its portion of the taxes collected.

Note 9 - Risk Management and Health Care Benefits

A. Risk Management

The City of East Cleveland is exposed to various risks of loss related to torts; thefts of, damage to and destruction of assets; errors and omissions; injuries to employees and natural disasters. During 2006, the City contracted with Scottsdale Indemnity Company for blanket building and business personal property liability with \$16,012,195 as coverage.

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

The City is self-insured for vehicle liability coverage. The City accounts for vehicle claims in the general fund. There were two outstanding claims at December 31, 2006; however, neither was settled by year end, so there is no way to determine their effect on the financial statements at December 31, 2006.

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

B. Health Care Benefits

Medical/surgical, dental and prescription insurance is offered to employees through Medical Mutual Insurance Company of Ohio for Police and Fire and Kaiser Permanente of Ohio for all non-classified employees. Medical Mutual Insurance Company of Ohio offers three options. For option one, individual coverage is \$412.10 per month while family coverage is \$1,030.69. Option one provides medical/surgical coverage with no deductible for both individual and family. Option two provides medical/surgical insurance with no deductible and a max out of pocket of \$500 individual/\$1,000 family which includes co-pays of \$20 for doctor office visits. Individual coverage is \$370.75 per month and family coverage is \$927.33. Option three provides medical/surgical insurance with a \$100 deductible in the network and co-pays for office visits, urgent care and emergency room services. Individual coverage is \$349.52 per month and family coverage is \$874.20. Medical Mutual also provides dental and vision coverage. The

City of East Cleveland, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2006

cost for dental coverage is \$21.93 for individual coverage and \$61.62 for family coverage. The cost for vision is \$6.01 for individual coverage and \$15.02 for family coverage.

Kaiser Permanente has two options. For option one, the HMO offers first dollar coverage much like Medical Mutual Insurance option one. The second option is a Point of Service plan which has 90 percent coverage, \$10 doctor office visit with deductibles and co-pays. The cost for option one HMO is \$308.19 per month for individual coverage and \$770.81 per month for family coverage. Option two is \$335.40 per month for individual coverage and \$838.88 per month for family coverage.

Life insurance is offered to employees through United States Life Insurance Company. Police receive up to \$20,000 coverage for \$.40/\$1,000 coverage per month; firemen receive up to \$30,000 coverage for \$.40 per/\$1,000 coverage per month. The fire chief and police chief receive up to \$50,000 coverage for \$.40 per/\$1,000 coverage per month. For police and fire, the City pays half the monthly premium and the employee pays the other half. All other City employees pay \$.42 per \$1,000 of coverage per month up to a maximum of \$50,000.

Note 10 - Defined Benefit Pension Plans

A. Ohio Public Employees Retirement System

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

OPERS provides retirement, disability, survivor and death benefits and annual cost of living adjustments to members of the traditional and combined plans. Members of the member directed plan do not qualify for ancillary benefits. Authority to establish and amend benefits is provided by Chapter 145 of the Ohio Revised Code. OPERS issues a stand-alone financial report that may be obtained by writing to OPERS, 277 East Town Street, Columbus, OH 43215-4642 or by calling (614) 222-5601 or (800) 222-7377.

For the year ended December 31, 2006, the members of all three plans, except those in law enforcement or public safety participating in the traditional plan, were required to contribute 9 percent of their annual covered salaries. Members participating in the traditional plan who were in law enforcement contributed 10.1 percent of their annual covered salary. The City's contribution rate for pension benefits for 2006 was 13.70 percent, except for those plan members in law enforcement or public safety. For those classifications, the City's pension contributions were 16.93 percent of covered payroll. The Ohio Revised Code provides statutory authority for member and employer contributions.

City of East Cleveland, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2006

The City's required contributions for pension obligations to the traditional and combined plans for the years ended December 31, 2006, 2005, and 2004 were \$347,480, \$346,508, and \$489,914, respectively; 86.46 percent has been contributed for 2006 and 100 percent for 2005 and 2004. No contributions were made to the member-directed plan for 2006.

B. Ohio Police and Fire Pension Fund

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

Plan members are required to contribute 10 percent of their annual covered salary to fund pension obligations while the City is required to contribute 19.50 percent for police officers and 24 percent for firefighters. Contributions are authorized by State statute. The City's contributions to OP&F for police for the years ended December 31, 2006, 2005 and 2004 were \$329,586, \$323,870, and \$328,682, respectively.

The City's contributions to OP&F for fire for the years ended December 31, 2006, 2005 and 2004 were \$507,765, \$527,128, and \$434,846, respectively. The full amounts have been contributed for 2005 and 2004. For police, 91.01 percent and for fire, 92.22 percent has been contributed for 2006.

In addition to current contributions, the City pays installments on the accrued liability incurred when the State of Ohio established the statewide pension system for police and firefighters in 1967. As of December 31, 2006, the unfunded liability of the City was \$1,534,911 payable in semi-annual payments through year 2035. This is an accounting liability of the City which will not vary.

Note 11 - Postemployment Benefits

A. Ohio Public Employees Retirement System

The Ohio Public Employees Retirement System (OPERS) provides postretirement health care coverage to age and service retirees with ten or more years of qualifying Ohio service credit with either the traditional or combined plans. Health care coverage for disability recipients and qualified survivor is available. Members of the member-directed plan do not qualify for postretirement health care coverage. A portion of each employer's contribution to the traditional or combined plans is set aside for the funding of postretirement health care based on authority granted by State statute. The 2006 local government employer contribution rate was 13.70 percent of covered payroll (16.93 percent for public safety and law enforcement); 4.50 percent of covered payroll was the portion that was used to fund health care.

Benefits are advance-funded using the entry age normal actuarial cost method. Significant actuarial assumptions, based on OPERS's latest actuarial review performed as of December 31, 2005, include a rate of return on investments of 6.50 percent, an annual increase in active employee total payroll of 4.00 percent compounded annually (assuming no change in the number of active employees) and an additional increase in total payroll of between .50 percent and 6.30 percent based on additional annual pay increases. Health care premiums were assumed to increase between .50 and 6.00 percent annually for the next nine years and 4.00 percent annually after nine years.

City of East Cleveland, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2006

All investments are carried at market. For actuarial valuation purposes, a smoothed market approach is used. Assets are adjusted to reflect 25 percent of unrealized market appreciation or depreciation on investment assets annually, not to exceed a 12 percent corridor.

The number of active contributing participants in the traditional and combined plans was 369,214 as of December 31, 2006. Actual employer contributions for 2006 which were used to fund postemployment benefits were \$219,906. The actual contribution and the actuarially required contribution amounts are the same. OPERS's net assets available for payment of benefits at December 31, 2006, were \$12 billion. The actuarially accrued liability and the unfunded actuarial accrued liability were \$30.7 billion and \$18.7 billion, respectively.

On September 9, 2004 the OPERS Retirement Board adopted a Health Care Preservation Plan (HCPP) with an effective date of January 1, 2007. To improve the solvency of the Health Care Fund, OPERS created a separate investment pool for health care assets. Member and employer contribution rates increased as of January 1, 2006, and January 1, 2007, which will allow additional funds to be allocated to the health care plan.

B. Ohio Police and Fire Pension Fund

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

The health care coverage provided by the retirement system is considered an Other Post-employment Benefit (OPEB) as described in *GASB Statement No.12*. The Ohio Revised Code provides the authority allowing the Ohio Police and Fire Pension Fund's board of trustees to provide health care coverage and states that health care costs paid from the funds of OP&F shall be included in the employer's contribution rate. Health care funding and accounting is on a pay-as-you-go basis. The total police employer contribution rate is 19.5 percent of covered payroll and the total firefighter employer contribution rate is 24 percent of covered payroll, of which 7.75 percent of covered payroll was applied to the postemployment health care program during 2006 and 2005. 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. Beginning in 2001, all retirees and survivors have monthly health care contributions.

The City's actual contributions for 2006 that were used to fund postemployment benefits were \$217,386 for police and \$242,165 for firefighters. The OP&F's total health care expense for the year ended December 31, 2006, was \$120,373,722, which was net of member contributions of \$58,532,848. The number of OP&F participants eligible to receive health care benefits as of December 31, 2006, was 29,434 for police and 23,358 for firefighters.

Note 12 – Local Government Fund Notes

On December 28, 2005, the City in accordance with Ohio Revised Code Section 118.17(C), issued \$2,913,600 in local government fund notes at 4.19 percent interest to eliminate deficit funds. The note proceeds were transferred to the Older American, Community Development Block Grant, Special Purpose

City of East Cleveland, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2006

Grant, and Sewer funds and will mature on December 1, 2013. The notes will be repaid with local government monies.

A schedule of changes during 2006 follows:

	Outstanding 12/31/2005	Additions	(Reductions)	Outstanding 12/31/2006
Governmental Activities				
Local Government Fund Notes	\$2,913,600	\$0	(\$302,206)	\$2,611,394

Principal and interest requirements to retire the notes outstanding at December 31, 2006, are as follows:

	Governmental Activities	
	Local Government Notes	
	Principal	Interest
2007	\$426,194	\$114,788
2008	364,200	95,375
2009	364,200	80,115
2010	364,200	64,855
2011	364,200	49,595
2012-2013	728,400	53,409
Total	\$2,611,394	\$458,137

Note 13 – Debt

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

Debt Issue	Original Issue	Year of Maturity
OPWC Loans:		
2003 Euclid Avenue Rehabilitation	\$3,186,729	2022
2003 Coventry Road	105,946	2025

Original issue amounts and year of maturity of the City’s business-type loans were as follows:

Debt Issue	Original Issue	Year of Maturity
OPWC Loans:		
1994 Water Main Project Phase I	\$393,740	2014
1997 Water Main Project Phase II	406,900	2017
2000 Brunswick Road Water Main Improvement Project	23,164	2019
2000 Forest Hills Water Main Project	25,442	2020
2006 Windemere/Idlewood/Knowles Road	888,429	2028

All of the loans were obtained through the Ohio Public Works Commission (OPWC) and are interest free.

City of East Cleveland, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2006

A schedule of changes in long-term obligations of the City during 2006 follows:

	Outstanding 12/31/2005	Additions	(Reductions)	Outstanding 12/31/2006	Due in One Year
Governmental Activities					
OPWC Loans:					
Euclid Avenue Rehabilitation	\$3,186,729	\$0	\$0	\$3,186,729	\$159,336
Coventry Road	105,946	0	(5,297)	100,649	10,595
Windemere/ Idlewood/ Knowles Road	0	888,429	0	888,429	0
Total OPWC Loans	3,292,675	888,429	(5,297)	4,175,807	169,931
Capital Leases	132,871	25,516	(89,841)	68,546	18,620
Police and Fire Pension Liability	1,562,240	0	(27,329)	1,534,911	28,506
Total Governmental Activities	<u>\$4,987,786</u>	<u>\$913,945</u>	<u>(\$122,467)</u>	<u>\$5,779,264</u>	<u>\$217,057</u>
Business-Type Activities					
OPWC Loans:					
Water Main Project Phase I	\$157,496	\$0	(\$9,843)	\$147,653	\$29,531
Water Main Project Phase II	217,266	0	(9,876)	207,390	29,627
Brunswick Road Water Main Improvement Project	15,637	0	(579)	15,058	1,737
Forest Hills Water Main Project	17,810	0	(636)	17,174	1,908
Total Business-Type Activities	<u>\$408,209</u>	<u>\$0</u>	<u>(\$20,934)</u>	<u>\$387,275</u>	<u>\$62,803</u>

Capital leases will be paid with various revenues from the permanent improvement capital projects fund. The police and fire pension liability will be paid from the general fund.

The Euclid Avenue rehabilitation OPWC loan will be paid from the general fund and the Coventry Road and Windemere/Idlewood/Knowles Road OPWC loans will be paid from the street fund. Enterprise OPWC loans will be paid from the water and sewer funds from user charges.

The City has entered into a contractual agreement for construction loans from the Ohio Public Works Commission (OPWC). Under the terms of these agreements, the OPWC will reimburse, advance or directly pay the construction costs of approved projects. The OPWC will capitalize administrative costs and construction interest and add them to the total amount of the final loan. The balance of these loans is \$4,563,082. The Ohio Public Works Commission (OPWC) loan for the Windemere/Idlewood/Knowles Road Project has not been finalized. The proceeds are in the street resurfacing capital projects fund.

The City's overall legal debt margin was \$16,184,953 at December 31, 2006.

City of East Cleveland, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2006

Principal and interest requirements to retire long-term obligations outstanding at December 31, 2006, are as follows:

	Governmental Activities		Business-Type Activities	
	Police and Fire Liability		OPWC Loans	
	Principal	Interest	Principal	Principal
	Principal	Interest	Principal	Principal
2007	\$28,506	\$64,031	\$169,931	\$62,803
2008	29,833	63,763	164,634	41,869
2009	31,013	62,583	209,055	41,869
2010	32,348	61,249	209,055	41,869
2011	33,690	59,906	209,055	41,869
2012-2016	191,741	276,272	1,045,276	150,284
2017-2021	236,771	231,211	1,045,276	6,712
2022-2026	292,313	175,669	1,034,682	0
2027-2031	360,915	107,067	88,843	0
2032-2035	297,781	25,655	0	0
Total	\$1,534,911	\$1,127,406	\$4,175,807	\$387,275

Note 14 - Leases

A. Capital Leases

The City leases vehicles and other equipment under noncancelable leases. The City entered into three new copier leases during 2006 with Toshiba Financial Services. The City disbursed \$93,099 to pay principal and interest lease costs for the year ended December 31, 2006.

Future lease payments are as follows:

Year	Amount
2007	\$22,445
2008	24,410
2009	24,432
2010	9,577
2011	7,267
2012	3,284
Total Minimum Lease Payments	91,415
Less: Amount Representing Interest	(22,869)
Present Value of Minimum Lease	<u>\$68,546</u>

City of East Cleveland, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2006

B. Operating Lease

The City of East Cleveland entered into an operating lease with City Management Group, Limited, for the purpose of leasing 6,500 square feet of a building in the City to house the City Water Department. This is a cancelable lease that is renewed annually. The City pays \$1,750 per month. For 2006, the City paid rental costs of \$21,000. The City must provide the lessor written notice at least 90 days prior to termination of the lease.

Note 15 - Interfund Transfers

The \$80,000 transfer from the general fund was made to move unrestricted general fund revenues to the Older Americans special revenue fund. This is an annual transfer.

Note 16 – Contingencies

A. Grants

The City receives financial assistance from federal and state agencies in the form of grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and is subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the general fund or other applicable funds. However, in the opinion of management, any such disallowed claims will not have a material adverse effect on the overall financial position of the City at December 31, 2006.

B. Litigation

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

Note 17 – Financial Distress

As of December 31, 2006, the City has a General Fund balance of \$1,970,021 and the business-type funds had an aggregate deficit of (\$1,046,212).

In subsequent years, the fund deficits have increased and there were significant outstanding obligations. As of December 31, 2010, the City's General Fund has a cash balance of \$7,044, and deficits in other funds totaling (\$1,404,520). The most significant outstanding obligations include the Ohio Police and Fire Pension \$1,332,692, the Ohio Bureau of Workers Compensation \$522,488, and the Ohio Department of Job and Family Services \$277,263 for a total of \$2,132,443.

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

City of East Cleveland, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2006

Note 18 – Subsequent Events

During 2007, the City entered into a capital lease for two copiers. The copiers have been capitalized in the amount of \$11,175.

On January 1, 2008, the City turned over its water operation to the City of Cleveland. Residents will purchase water directly from and will be billed by the City of Cleveland. The waterlines within the City will still be owned and maintained by the City, and specific charges for capital improvements billed to the residents of East Cleveland by the City of Cleveland will be transferred to the City of East Cleveland. These monies will be used to maintain the waterlines and to pay off any remaining Ohio Public Works Commission loans associated with the waterlines.

Also in 2008, the City entered into a capital lease for ten police vehicles. The vehicles have been capitalized in the amount of \$340,000.

This page intentionally left blank

**CITY OF EAST CLEVELAND
CUYAHOGA COUNTY**

**FEDERAL AWARDS EXPENDITURE SCHEDULE
FOR THE YEAR ENDED DECEMBER 31, 2006**

FEDERAL GRANTOR <i>Pass Through Grantor</i> Program Title	Federal CFDA Number	Expenditures
U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES		
<i>Passed Through Western Reserve Area on Aging</i>		
Older Americans Title III, Part B-Grants for Supportive Services and Senior Centers	93.044	\$ 69,350
Older Americans Title III, Part C-Nutrition Services	93.045	24,653
Total U.S. Department of Health and Human Services		94,003
U.S. DEPARTMENT OF HOMELAND SECURITY		
<i>Passed Through Ohio Department of Public Safety</i>		
Assistance to Firefighters Grant	97.044	63,158
U.S. DEPARTMENT OF JUSTICE		
<i>Passed Through Office of the Ohio Attorney General</i>		
Victims of Crime Act	16.575	79,750
Direct Programs:		
Public Safety Partnership and Community Policing Grants	16.710	759
Edward Byrne Memorial JAG Program, Local Law Enforcement Block Grant	16.738	4,344
Total U.S. Department of Justice		5,103
U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT		
Direct Programs:		
Community Development Block Grant, Entitlement Program	14.218	1,970,142
Special Purpose Grant 33	14.251	52,772
Special Purpose Grant 507	14.251	186,484
Home Investment Partnership Program	14.239	1,113,334
Total U.S. Department of Housing and Urban Development		3,322,732
TOTAL FEDERAL AWARDS EXPENDITURES		\$ 3,564,746

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

**CITY OF EAST CLEVELAND
CUYAHOGA COUNTY
NOTES TO THE FEDERAL AWARDS EXPENDITURES SCHEDULE
FOR THE YEAR ENDED DECEMBER 31, 2006**

1. Basis of Presentation

The accompanying Federal Awards Expenditures Schedule includes the federal grant activity of the City of East Cleveland (the "City") and is presented on the cash basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*.



Dave Yost • Auditor of State

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

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

To the Members of City Council:

We have audited the financial statements of the governmental activities, business type activities, each major fund, and the aggregate remaining fund information of the City of East Cleveland, Cuyahoga County, Ohio (the City) as of and for the year ended December 31, 2006 and have issued our report thereon dated December 31, 2011, wherein we commented on the City's accumulated unpaid bills which if processed would result in a negative fund balance. We also noted the City utilized a basis of accounting other than that prescribed by Ohio Administrative Code § 117-2-03(B) and restated the January 1, 2006 net assets for the Water and Sewer Proprietary Funds. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the Comptroller General of the United States' *Government Auditing Standards*.

Internal Control Over Financial Reporting

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

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. Therefore, we cannot assure that we have identified all deficiencies, significant deficiencies or material weaknesses. However, as described in the accompanying schedule of findings we identified a certain deficiency in internal control over financial reporting, that we consider a material weakness.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, when performing their assigned functions, to prevent, or detect and timely correct misstatements. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and timely corrected. We consider finding 2006-01 in the accompanying schedule of findings to be a material weakness.

Compliance and Other Matters

As part of reasonably assuring whether the City's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could directly and materially affect the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and accordingly, we do not express an opinion. The results of our tests disclosed instances of noncompliance or other matters we must report under *Government Auditing Standards* which are described in the accompanying schedule of findings as items 2006-02 to 2006-09.

We also noted certain matters not requiring inclusion in this report that we reported to the City's management in a separate letter dated December 23, 2011.

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

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



Dave Yost
Auditor of State

December 23, 2011



Dave Yost • Auditor of State

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

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

To the Members of City Council:

Compliance

We have audited the compliance of the City of East Cleveland, Cuyahoga County, Ohio, (the District) with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133, Compliance Supplement* that apply to each of its major federal programs for the year ended December 31, 2006. The summary of auditor's results section of the accompanying schedule of findings identifies the District's major federal programs. The District's management is responsible for complying with the requirements of laws, regulations, contracts, and grants applicable to each major federal program. Our responsibility is to express an opinion on the District's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits included in the Comptroller General of the United States' *Government Auditing Standards*; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to reasonably assure whether noncompliance occurred with the compliance requirements referred to above that could directly and materially affect a major federal program. An audit includes examining, on a test basis, evidence about the District's compliance with those requirements and performing other procedures we considered necessary in the circumstances. We believe our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the District's compliance with those requirements.

In our opinion, the City of East Cleveland complied, in all material respects, with the requirements referred to above applicable to each of its major federal programs for the year ended December 31, 2006.

Internal Control Over Compliance

The City's management is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the City's internal control over compliance with requirements that could directly and materially affect a major federal program in order to determine our auditing procedures for the purpose of opining on compliance in accordance with OMB Circular A-133, but not for the purpose of opining on the effectiveness of internal control over compliance. Accordingly, we have not opined on the effectiveness of the City's internal control over compliance.

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

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control over compliance that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

We also noted matters involving federal compliance or internal control over federal compliance not requiring inclusion in this report, that we reported to the City's management in a separate letter dated December 23, 2011.

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



Dave Yost
Auditor of State

December 23, 2011

CITY OF EAST CLEVELAND
 CUYAHOGA COUNTY
 SCHEDULE OF FINDINGS
 OMB CIRCULAR A - §133 - §505
 FOR THE YEAR ENDED DECEMBER 31, 2006

1. SUMMARY OF AUDITOR'S RESULTS
--

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

CITY OF EAST CLEVELAND
CUYAHOGA COUNTY
SCHEDULE OF FINDINGS
OMB CIRCULAR A - §133 - §505
FOR THE YEAR ENDED DECEMBER 31, 2006
(Continued)

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

Finding Number	2006-01
-----------------------	----------------

Material Weakness

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

In 2006, the City failed to record Ohio Public Works Commission (OPWC) grant funds paid directly to vendors for street projects as intergovernmental revenues and capital outlay expenditures in the amount of \$1,860,933 to the Street Resurfacing Fund. The accompanying financial statements and the City's accounting records reflect an adjustment recording this amount.

We recommend the City record OPWC grant funds paid directly to vendors in the accounting records.

Official's Response

We understand the issue and are reporting the OPWC grant monies paid directly to vendors in the current financial statements.

Finding Number	2006-02
-----------------------	----------------

Material Noncompliance Finding – Employees Paid in Excess of Council's Authorization

Employee compensation is based on personnel employment contracts, various union agreements and the amounts authorized by Council. Payroll authorization forms are signed by the Mayor and Director of Human Resources and placed in the employee's file. Council has been considering revising the salaries for its employees for several years in order to attract qualified personnel but did not formally take action.

During a test of ten employee salaries, we noted five instances in which the employee was paid in excess of the amount authorized by Council in Resolution No. 100-05. However, the salary paid was authorized by the Mayor and Director of Human Resources. This resulted in the employees being compensated in excess of the amount authorized by Council. Council was aware these employees were making more than was authorized and when Council subsequently revised the salary schedule the five exceptions noted were within the range established.

We recommend that employee salaries subject to Council approval adhere to the amounts authorized in the Council's resolution or that Council review and amend as needed the compensation resolution regularly.

Official's Response

We understand the issue and corrected it when we revised the salary schedule,

CITY OF EAST CLEVELAND
CUYAHOGA COUNTY
SCHEDULE OF FINDINGS
OMB CIRCULAR A - §133 - §505
FOR THE YEAR ENDED DECEMBER 31, 2006
(Continued)

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

Finding Number	2006-03
-----------------------	----------------

Material Noncompliance Finding – Negative Cash Fund Balances

Ohio Rev. Code § 5705.10(H) provides that money paid into a fund must be used only for the purposes for which such fund has been established. A fund with a negative fund balance signifies that monies from other funds were used to meet their obligations.

As of December 31, 2006, the following funds had negative cash fund balances:

<u>Fund</u>	<u>Amount</u>
Special Revenue Funds:	
Older Americans	(\$55,518)
Community Development	(289,218)
Community Cops	(5,333)
Special Purpose Grant	(5,933)
HOME Program	(14,579)
Domestic Violence	(11,758)
VOCA	(76)
Enterprise Funds:	
Water	(385,443)
Sewer	(660,769)

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

Official's Response:

We understand the issue and will correct it in the future.

**CITY OF EAST CLEVELAND
 CUYAHOGA COUNTY
 SCHEDULE OF FINDINGS
 OMB CIRCULAR A - §133 - §505
 FOR THE YEAR ENDED DECEMBER 31, 2006
 (Continued)**

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

Finding Number	2006-04
-----------------------	----------------

Material Noncompliance Finding – Appropriations Exceeded Total Estimated Resources

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

As of December 31, 2006, the following funds had total final appropriations in excess of estimated resources plus carryover balances:

Fund	Final Revenues Plus Carryover Balances	Final Appropriations	Excess
Governmental Funds:			
Special Revenue Funds:			
Police Accrued Liability	\$83,069	\$88,669	\$5,600
Fire Accrued Liability	101,911	118,590	16,679
Parks and Recreations	693	3,492	2,799
Old Americans	219,675	228,566	8,891
EMS	660,000	683,740	23,740
Community Development	2,270,112	2,880,301	610,189
Dare Grant	28,430	30,000	1,570
Home Program	1,973,366	2,131,387	158,021
Domestic Violence	21,316	25,100	3,784
Capital Projects Funds:			
Street Resurfacing	800,000	1,100,000	300,000
Enterprise Funds			
Water	4,773,890	4,921,472	147,582
Sewer	5,359,294	5,581,446	222,152

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

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

Official's Response:

We understand the issue, are monitoring the data in the current year and adjusting appropriations accordingly.

**CITY OF EAST CLEVELAND
 CUYAHOGA COUNTY
 SCHEDULE OF FINDINGS
 OMB CIRCULAR A - §133 - §505
 FOR THE YEAR ENDED DECEMBER 31, 2006
 (Continued)**

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

Finding Number	2006-05
-----------------------	----------------

Material Noncompliance Finding – Expenditures Plus Encumbrances in Excess of Appropriations

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

As of December 31, 2006, the following funds had expenditures plus encumbrances in excess of appropriations:

Fund/Function	Appropriations	Expenditure Plus Encumbrances	Excess
<i>General Fund:</i>			
Leisure Time Activities			
Parks and Recreation			
Personal Services	\$105,674	\$239,647	\$133,973
Contractual Services	39,426	39,519	93
Community Environment			
Housing			
Personal Services	99,368	165,276	65,908
Capital Outlay	2,711	3,174	463
Transportation			
Service Department Administration			
Materials and Supplies	89,095	90,578	1,483
General Government			
Mayor			
Personal Services	159,444	200,364	40,920
Finance			
Contractual Services	64,200	66,046	1,846
Capital Outlays	158	898	740
Law Director			
Personal Services	276,472	312,171	35,699
Courts			
Personal Services	764,823	939,472	174,649
Land and Buildings			
Personal Services	72,750	79,137	6,387
Materials and Supplies	4,313	8,933	4,620
Contractual Services	3,175	10,286	7,111
Human Resources			
Materials and Supplies	130,522	152,960	22,438

CITY OF EAST CLEVELAND
 CUYAHOGA COUNTY
 SCHEDULE OF FINDINGS
 OMB CIRCULAR A - §133 - §505
 FOR THE YEAR ENDED DECEMBER 31, 2006
 (Continued)

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

Finding Number	2006-05
-----------------------	----------------

(Continued)

Fund/Function	Appropriations	Expenditure Plus Encumbrances	Excess
<i>Special Revenue Funds:</i>			
Fire Accrued Liability			
Security of Persons and Property			
Personal Services	\$76,222	\$171,918	\$95,696
Older Americans			
Community Environment			
Personal Services	163,299	271,781	108,482
Materials and Supplies	1,633	6,930	5,297
Other	293	9,373	9,080
CSX Awards			
Community Environment			
Personal Services	-	12,618	12,618
Contractual Services	1,222	1,544	322
Home Program			
Community Environment			
Contractual Services	2,035,516	2,086,278	50,762
Domestic Violence			
Security of Persons and Property			
Contractual Services	15,251	34,977	19,726
Computer Legalize Fees			
General Government			
Other	-	23,073	23,073
Engineering and Building			
General Government			
Contractual Services	2,945	6,083	3,138
Community Cops			
Security of Persons and Property			
Personal Services	-	5,333	5,333
Voca			
Community Environment			
Contractual Services	11,720	25,230	13,510
Other	12,935	13,897	962
Cops Universal			
Security of Persons and Property			
Personal Services	-	758	758

CITY OF EAST CLEVELAND
CUYAHOGA COUNTY
SCHEDULE OF FINDINGS
OMB CIRCULAR A - §133 - §505
FOR THE YEAR ENDED DECEMBER 31, 2006
(Continued)

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

Finding Number	2006-05
-----------------------	----------------

(Continued)

Fund/Function	Appropriations	Expenditure Plus Encumbrances	Excess
<i>Capital Projects Funds:</i>			
Transfer Station			
Capital Outlay	\$ -	\$1,500	\$1,500
Street Resurfacing			
Capital Outlay	1,100,000	1,975,963	875,963
<i>Enterprise Fund:</i>			
Water			
Contractual Services	4,083,851	4,234,033	150,182
Capital Outlay	23,572	116,168	92,596

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

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

Official's Response:

We are monitoring appropriations with expenditures plus encumbrances on a regular basis.

**CITY OF EAST CLEVELAND
 CUYAHOGA COUNTY
 SCHEDULE OF FINDINGS
 OMB CIRCULAR A - §133 - §505
 FOR THE YEAR ENDED DECEMBER 31, 2006
 (Continued)**

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

Finding Number	2006-06
-----------------------	----------------

Material Noncompliance Finding – Appropriations Exceeded Actual Receipts Plus Unencumbered Cash

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

At December 31, 2006, the following funds had appropriations which exceeded actual receipts plus unencumbered cash:

<u>Fund</u>	<u>Actual Receipts Plus Unencumbered Cash</u>	<u>Final Appropriations</u>	<u>Excess</u>
Older Americans Title III B/C	\$45,971	\$288,978	(\$243,007)
Special Purpose Grant (HUD)	(97,335)	0	(97,335)
Home Program Fund	139,045	1,735,451	(1,596,406)
Water	860,856	1,735,911	(875,055)
Sewer	427,075	1,190,806	(763,731)

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

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

Official's Response:

We understand the issue and are closely monitoring the data in the current year and will adjust appropriations accordingly.

**CITY OF EAST CLEVELAND
 CUYAHOGA COUNTY
 SCHEDULE OF FINDINGS
 OMB CIRCULAR A - §133 - §505
 FOR THE YEAR ENDED DECEMBER 31, 2006
 (Continued)**

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

Finding Number	2006-07
-----------------------	----------------

Material Noncompliance Finding – Maintaining Separate Funds for Federal Programs

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

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

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

Official’s Response:

We will establish the required funds next year.

Finding Number	2006-08
-----------------------	----------------

Material Noncompliance Finding – Proper Certification

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

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

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

CITY OF EAST CLEVELAND
CUYAHOGA COUNTY
SCHEDULE OF FINDINGS
OMB CIRCULAR A - §133 - §505
FOR THE YEAR ENDED DECEMBER 31, 2006
(Continued)

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

Finding Number	2006-08
-----------------------	----------------

(Continued)

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

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

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

During a test of 75 transactions, we noted 13 instances (17%) in which the transaction was not certified by the fiscal officer at the time the commitment was incurred and there was no evidence the City followed the aforementioned exceptions. Unless the exceptions noted above are used, prior certification is not only required by statute but is a key control in the disbursement process to assure that purchase commitments receive prior approval. Failure to properly certify the availability of funds can result in overspending funds and negative cash fund balances.

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

Official’s Response:

We understand the issue and will communicate it to the City’s employees.

**CITY OF EAST CLEVELAND
 CUYAHOGA COUNTY
 SCHEDULE OF FINDINGS
 OMB CIRCULAR A - §133 - §505
 FOR THE YEAR ENDED DECEMBER 31, 2006
 (Continued)**

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

Finding Number	2006-09
-----------------------	----------------

Material Noncompliance Finding – Ohio Police and Fire Pension Fund Payments

Ohio Rev. Code § 742.35 requires each employer to submit payments to the Ohio Police and Fire Pension Fund. All employer obligations described in this section must be received by the retirement system not later than the sixtieth day after the last day of the calendar quarter. Upon certification by the board to the county auditor of an amount due from any employer within the county, by reason of such employer’s delinquency in making employer contribution payments to the fund for past months, such amount shall be withheld from such employer from any funds in the hands of the county treasurer for distribution to such employer. Upon receipt of such certification, the county auditor shall draw a warrant against such funds in favor of the fund for the amount.

The City did not make all of the required payments to the Ohio Police and Fire Pension Fund during 2006. As a result, the employee may not receive proper credit for time worked and the City may have to pay penalties and interest.

Based on a confirmation received from the Ohio Police and Fire Pension Fund, as of November 3, 2011 the City owed the following amounts:

Year	Fire Balance	Police Balance	Total
2006	\$129,023	\$91,998	\$221,021

We recommend the City remit the required pension amounts to the Ohio Police and Fire Pension Fund.

Official’s Response:

We paid the outstanding amount to the Ohio Police and Fire Pension Fund.

3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS

None

This page intentionally left blank.

**CITY OF EAST CLEVELAND
CUYAHOGA COUNTY**

**SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE YEAR ENDED DECEMBER 31, 2006**

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; <i>Explain</i>
2005-001	The City could not locate the time cards that support the time and approval of the employees worked. The City was also unable to provide support for the employee's pay rate.	Yes	
2005-002	The Finance Director did not perform the back-up procedures for the 2005 accounting records nor did he retain a hard copy of the records. As a result, the detailed accounting records, including the receipts, expenditures and fund balance reports, are unavailable for 2005 and there is no support for the financial statement amounts.	Yes	
2005-003	The Clerk of the Municipal Court could not locate the general index, the docket, cash book ledgers and receipt book, as required.	Yes	
2005-004	The City utilizes a self-insurance program for vehicle liability coverage but did not obtain the required report reflecting the reserves and disbursements made nor did it secure the services of an actuary to certify the adequacy of the reserve funding level.	Yes	
2005-005	Separate funds were not established for the two federal programs, CFDA # 93.044 and # 93.045.	No	Repeated in finding 2006-07.
2005-006	Several funds had total final appropriations in excess of estimated resources plus carryover balances, contrary to Section 5705.39, Revised Code.	No	Repeated in finding 2006-04.
2005-007	Several funds had expenditures plus encumbrances in excess of appropriations, contrary to Section 5705.41(B), Revised Code.	No	Repeated in finding 2006-05.

**CITY OF EAST CLEVELAND
CUYAHOGA COUNTY**

**SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE YEAR ENDED DECEMBER 31, 2006**

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; <i>Explain</i>
2005-008	Auditors were unable to determine if the City complied with the requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133, <i>Compliance Supplement</i> . The City did not provide documentation to enable a review of the compliance with the Circular. A schedule of federal awards expenditures was not prepared; the accounting system reports identifying the transactions related to the federal programs were not provided nor were any support documentation. Questioned costs issued for all payments made.	Yes	
2005-009	The City declined to prepare the schedule of prior audit findings required by Circular A-133 §__.315(b).	Yes	
2005-010	As reported in finding number 2005-002, the accounting records are unavailable for 2005 and there is no detailed support for the financial statement amounts. As a result, the auditors were unable to determine if the City complied with the compliance requirements applicable to its Federal awards.	Yes	



Dave Yost • Auditor of State

CITY OF EAST CLEVELAND

CUYAHOGA COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
JANUARY 5, 2012**