



Dave Yost • Auditor of State



CITY OF EAST CLEVELAND  
CUYAHOGA COUNTY

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# Dave Yost • Auditor of State

## INDEPENDENT ACCOUNTANTS' REPORT

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

To the Members of City Council:

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the City of East, Cuyahoga County, Ohio (the City), as of and for the year ended December 31, 2008 which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

As described in Note 3 to the financial statements, the City restated the January 1, 2008 governmental activities net assets and fund balances and the business-type activities net assets and fund balances from the cash basis reporting to reporting in conformity with accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the City of East Cleveland, Cuyahoga County, Ohio, as of December 31, 2008, and the respective changes in financial position and where applicable, cash flows, thereof and the budgetary comparison for the General Fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 20 to the financial statements, the City has accumulated unpaid bills which if processed would result in a negative fund balance. Note 20 describes Management's lack of a formal plan regarding these matters. The financial statements do not include any adjustments that might result from the outcome of this uncertainty.

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

We conducted our audit to opine on the financial statements that collectively comprise the City's basic financial statements. The schedule of federal awards receipts and expenditures provides additional information required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the basic financial statements. The schedule of federal awards receipts and expenditures 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, 2008*  
*Unaudited*

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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, 2008. The intent of this discussion and analysis is to look at the City's financial performance as a whole; readers should also review the transmittal letter and the basic financial statements and notes to enhance their understanding of the City's financial performance.

### **Financial Highlights**

Highlights for 2008 are as follows:

- Effective January 1, 2008, the City turned over water billing/collections to the City of Cleveland. This resulted in huge decreases in revenues and expenditures for both the water and sewer funds.
- In total, the City's net assets decreased 33.35 percent from the prior year. Governmental activities decreased \$1,690,037, while business-type activities decreased \$8,197,411. The significant decrease for governmental activities was based on revenues decreasing while expenditures increased for the year. The significant decrease in business-type activities was due to the discontinuation of water operations.
- General revenues made up 75.10 percent of the total revenues for governmental activities in 2008, and of this amount, 38.12 percent was provided through municipal income taxes, the most critical of the City's revenue sources.
- Total outstanding debt decreased \$200,405, or 2.48 percent during 2008.
- In order to eliminate deficit fund balances, the City issued \$2.9 million in local government fund notes in 2005. By statute, local government fund notes are only available to entities in fiscal emergency.

### **Using this Annual Financial Report**

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

The Statement of Net Assets and the Statement of Activities provide information showing the effects of the operations for the year 2008 and how they affected the operations of the City as a whole.

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

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*Management's Discussion and Analysis*  
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***Reporting the City of East Cleveland as a Whole***

*Statement of Net Assets and Statement of Activities*

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

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

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

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

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

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

*Fund Financial Statements*

The analysis of the City's funds begins on page 9. Fund financial reports give a detailed report of the activities within the funds. The City has established many funds. These funds are in existence to provide a multitude of services to the citizens of East Cleveland. Some funds provide for police, fire and emergency medical service protection, streets, water service and sewer service. Some also provide for the purchase of capital assets, while others provide for the payment of principal and interest on debt. Each fund is in some ways an entity unto itself. Each fund has a designated revenue stream and restricted uses for the monies within the fund.

However, these fund financial statements focus on the City's most significant funds. In this report, the focus is on three major funds: general, water, and sewer. The funds of the City are split into three categories: governmental, proprietary and fiduciary.

***Governmental Funds*** Most of the City's major activities (excluding the water and sewer funds) are reported in the governmental funds. This report shows how monies flow into and out of these funds and also shows what balances are available for future expenditures. The accounting method used to report this activity is the modified accrual method. This method reports cash and like-cash items that can be converted into cash.



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This shows what level of financial resources are available or will be available to provide the services that the general government will provide in the near future. These services include police and fire protection, emergency medical service and street maintenance and repair. The relationship between governmental activities (reported in the Statement of Net Assets and the Statement of Activities) and the governmental funds is reconciled in the financial statements.

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

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

### The City of East Cleveland as a Whole

The Statement of Net Assets provides an overall view of the City. Table 1 shows a summary of the City's net assets for 2008 as they compare to 2007.

**Table 1**  
**Net Assets**

	Governmental Activities		Business-Type Activities		Totals	
	2008	2007	2008	2007	2008	2007
<b>Assets</b>						
Current and Other Assets	\$13,230,959	\$15,361,908	\$36,664	(\$81,323)	\$13,267,623	\$15,280,585
Capital Assets, Net	19,248,931	19,385,593	209,561	8,632,131	19,458,492	28,017,724
<i>Total Assets</i>	<u>32,479,890</u>	<u>34,747,501</u>	<u>246,225</u>	<u>8,550,808</u>	<u>32,726,115</u>	<u>43,298,309</u>
<b>Liabilities</b>						
Current Liabilities	5,206,607	5,772,598	59,664	126,402	5,266,271	5,899,000
Long-Term Liabilities:						
Due Within One Year	669,449	551,414	48,957	44,031	718,406	595,445
Due in More than One Year	6,685,787	6,815,405	294,859	340,219	6,980,646	7,155,624
<i>Total Liabilities</i>	<u>12,561,843</u>	<u>13,139,417</u>	<u>403,480</u>	<u>510,652</u>	<u>12,965,323</u>	<u>13,650,069</u>
<b>Net Assets</b>						
Invested in Capital Assets, Net of Related Debt	15,017,626	15,224,884	209,561	8,286,724	15,227,187	23,511,608
Restricted for:						
Capital Projects	1,605,694	1,495,271	0	0	1,605,694	1,495,271
Other Purposes	1,200,227	1,362,715	0	0	1,200,227	1,362,715
Unrestricted (Deficit)	2,094,500	3,525,214	(366,816)	(246,568)	1,727,684	3,278,646
<i>Total Net Assets (Deficit)</i>	<u>\$19,918,047</u>	<u>\$21,608,084</u>	<u>(\$157,255)</u>	<u>\$8,040,156</u>	<u>\$19,760,792</u>	<u>\$29,648,240</u>

Total assets decreased in 2008 by \$2,267,611. This decrease was mainly the result of a decrease in municipal income tax receivables in governmental activities due to the struggling economy and a decrease in the accounts receivable of the business-type activities which was a result of the water billing being outsourced.

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*Management's Discussion and Analysis*  
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Total liabilities decreased by \$684,746 in 2008. The decrease was mainly due to a decrease in deferred revenue sources.

Table 2 shows the changes in net assets for the year ended December 31, 2008 for both governmental activities and business-type activities. Revenue and expense comparisons to the year 2007 are also shown.

**Table 2**  
**Changes in Net Assets**

	Governmental Activities		Business-Type Activities		Totals	
	2008	2007	2008	2007	2008	2007
<b>Revenues:</b>						
Program Revenues:						
Charges for Services	\$2,966,593	\$5,405,890	\$1,546,126	\$7,196,021	\$4,512,719	\$12,601,911
Operating Grants and Contributions	2,020,187	2,784,796	0	75,213	2,020,187	2,860,009
Capital Grants and Contributions	320,464	43,628	1,667	232,586	322,131	276,214
<i>Total Program Revenues</i>	<u>5,307,244</u>	<u>8,234,314</u>	<u>1,547,793</u>	<u>7,503,820</u>	<u>6,855,037</u>	<u>15,738,134</u>
General Revenues:						
Property Taxes	2,531,934	2,729,831	0	0	2,531,934	2,729,831
Municipal Income Taxes	6,101,853	6,048,325	0	0	6,101,853	6,048,325
Hotel Tax	1,803	2,148	0	0	1,803	2,148
Grants and Entitlements	6,457,491	4,904,819	0	0	6,457,491	4,904,819
Investment Earnings	74,101	199,983	9,239	61,294	83,340	261,277
Miscellaneous	839,717	349,234	17,737	0	857,454	349,234
<i>Total General Revenues</i>	<u>16,006,899</u>	<u>14,234,340</u>	<u>26,976</u>	<u>61,294</u>	<u>16,033,875</u>	<u>14,295,634</u>
<i>Total Revenues</i>	<u>21,314,143</u>	<u>22,468,654</u>	<u>1,574,769</u>	<u>7,565,114</u>	<u>22,888,912</u>	<u>30,033,768</u>
<b>Program Expenses</b>						
General Government	6,839,353	4,464,614	0	0	6,839,353	4,464,614
Security of Persons and Property	9,845,632	7,061,659	0	0	9,845,632	7,061,659
Transportation	1,709,071	803,222	0	0	1,709,071	803,222
Community Development	2,128,145	2,009,749	0	0	2,128,145	2,009,749
Leisure Time Activities	241,157	153,804	0	0	241,157	153,804
Basic Utility Services	1,008,222	733,060	0	0	1,008,222	733,060
Interest and Fiscal Charges	132,600	116,333	0	0	132,600	116,333
Water	0	0	1,460,097	4,555,089	1,460,097	4,555,089
Sewer	0	0	1,315,408	4,697,292	1,315,408	4,697,292
<i>Total Program Expenses</i>	<u>21,904,180</u>	<u>15,342,441</u>	<u>2,775,505</u>	<u>9,252,381</u>	<u>24,679,685</u>	<u>24,594,822</u>
<i>Increase (Decrease) in Net Assets</i>						
before Transfers	(590,037)	7,126,213	(1,200,736)	(1,687,267)	(1,790,773)	5,438,946
Transfers	(1,100,000)	0	1,100,000	0	0	0
<i>Income from Continuing Operations</i>	<u>(1,690,037)</u>	<u>7,126,213</u>	<u>(100,736)</u>	<u>(1,687,267)</u>	<u>(1,790,773)</u>	<u>5,438,946</u>
<i>Discontinued Operations</i>						
Discontinued Water Operations	0	0	(8,096,675)	0	(8,096,675)	0
<i>Increase (Decrease) in Net Assets</i>	<u>(1,690,037)</u>	<u>7,126,213</u>	<u>(8,197,411)</u>	<u>(1,687,267)</u>	<u>(9,887,448)</u>	<u>5,438,946</u>
<i>Net Assets Beginning of Year</i>	<u>21,608,084</u>	<u>14,481,871</u>	<u>8,040,156</u>	<u>9,727,423</u>	<u>29,648,240</u>	<u>24,209,294</u>
<i>Net Assets (Deficit) End of Year</i>	<u>\$19,918,047</u>	<u>\$21,608,084</u>	<u>(\$157,255)</u>	<u>\$8,040,156</u>	<u>\$19,760,792</u>	<u>\$29,648,240</u>

**City of East Cleveland, Ohio**  
*Management's Discussion and Analysis*  
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***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, 2008. The City does not allow any credit of the City's income tax rate for taxes paid to other political subdivisions in Ohio. The slight increase in municipal income tax revenue of \$53,528 is due to several small businesses opening in up in the City. The income tax department aggressively pursues non-filing and late filing residents. When the court makes a judgment, the money is collected or a payment plan is established.

Charges for services saw a huge decrease due to the City collecting less on their traffic tickets. During 2008, less people were driving due to higher gas costs, in-turn the number of tickets issued have also declined. In addition, the economy is still in a slump which means many people are unable to pay their fines for tickets they may have received.

The net decrease of \$764,609 in operating grants and contributions from the prior year is due to a decrease in grants for the City in 2008.

The operations of the City's police and fire departments accounts for the largest expenses of the governmental activities, representing 44.95 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 75 patrolmen and dispatchers. The fire department is staffed by 52 full-time firefighters. The police and fire departments are operated with general fund dollars. The City allocates monies from the inside (unvoted) millage to the police pension and fire pension special revenue funds to pay the employer's portion of retirement and disability benefits to the Ohio Police and Fire Pension Fund.

General government expenses account for 31.22 percent of governmental expenses and shows a \$2,374,739 increase from 2007 levels. General governmental expenses increased due to increased salary costs and new hires.

Operations for the City's Community Development program accounts for 9.72 percent of total governmental expenses. Community development had a \$118,396 increase from 2007, primarily due to increased expenses for CDBG-related projects. Basic utility expenses had an increase of \$275,162. For refuse collection, which is accounted for under basic utilities, the City contracts with Browning Ferris Incorporated (BFI), and in 2007 BFI raised the contract amount significantly. The City has a two-year agreement with BFI that increases each year. For 2007, the contract amount was \$1,100,000, and for 2008 the contract amount is \$1,200,000. Since the City turned over the billing and collection of water services to the City of Cleveland, the City of Cleveland is now also billing for refuse collection and turning that money back over to the City of East Cleveland.

Transportation expenses which include the service department and street maintenance account for 7.80 percent of total governmental expenses. Expenses increased by \$905,849 between 2007 and 2008 due to an increase in personnel and an increase in the number of streets that had repair work done on them.

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

**Table 3**  
**Cost of Services**

	Governmental Activities			
	Total Cost of Services	Total Cost of Services	Net Cost of Services	Net Cost of Services
	2008	2007	2008	2007
General Government	\$6,839,353	\$4,464,614	(\$5,917,723)	(\$2,485,578)
Security of Persons and Property	9,845,632	7,061,659	(8,044,704)	(3,932,012)
Transportation	1,709,071	803,222	(857,277)	(202,554)
Community Development	2,128,145	2,009,749	(551,854)	(137,344)
Leisure Time Activities	241,157	153,804	(212,468)	(95,444)
Basic Utility Services	1,008,222	733,060	(880,310)	(442,273)
Interest and Fiscal Charges	132,600	116,333	(132,600)	(116,333)
<b>Total</b>	<b>\$21,904,180</b>	<b>\$15,342,441</b>	<b>(\$16,596,936)</b>	<b>(\$7,411,538)</b>

***Business-Type Activities***

Starting on January 1, 2008, the City turned over the billing of water services to the City of Cleveland. In the past, the City purchased pre-treated water wholesale from the cities of Cleveland and Cleveland Heights and resells it to the residents. As of the beginning of the year, the City of Cleveland will be billing the residents of the City of East Cleveland directly for their water consumption. They will also take over the billing for sewer treatment services and the City of Cleveland will distribute that money back to the City of East Cleveland.

The City pays \$26.08 per 1,000 cubic feet of water purchased to Northeast Ohio Regional Sewer District for sewer treatment services. The City owns and maintains the sewer lines throughout the City. The residential and commercial customers are charged \$47.72 per 1,000 cubic feet of water purchased for these sewer services. Homestead customers pay a reduced rate of \$35.63 per 1,000 cubic feet for these services.

While the City has turned over the billing to the City of Cleveland, they are still staffing a utility department. The City has many delinquent accounts for utility services and throughout 2008 they were still collecting on amounts owed to them. Since the December 2007 consumption needed to be billed in January 2008, the utility department still billed and collected in January 2008.

The revenues and expenses for both of these utilities are reported under the business-type activities in Table 2. The revenues are derived primarily from charges for services. In 2008, this amount of \$1,546,126 accounted for 98.29 percent of the revenues. The decrease of \$5,649,895 over 2007 charges for services is due to moving the water operation to the City of Cleveland. The total expenses for the utilities were \$2,766,394.

**City of East Cleveland, Ohio**  
*Management's Discussion and Analysis*  
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**The City's Funds**

Information about the City's governmental funds begins on page 16. These funds are accounted for using the modified accrual basis of accounting. All governmental funds had revenues of \$21,039,587 and expenditures of \$22,210,311. The City's governmental funds reflected a decrease in fund balances of \$1,841,165. The majority of this decrease was in the general fund which decreased \$2,150,412 from 2007 to 2008 due to less revenues being collected from the use of a traffic violation program using cameras to document speeding violations.

Information about the proprietary funds starts on page 21. These funds are accounted for on an accrual basis. All enterprise funds had operating revenues of \$1,563,863 and operating expenses of \$2,751,894.

***Budgeting Highlights***

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

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

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

For the general fund, original and final budgeted revenues were \$15,213,858 and \$17,672,388, respectively and actual revenue collections were \$17,827,497. Some of the increase in actual revenue over the budgeted amounts is due a slight increase in municipal income taxes and intergovernmental monies collected.

Also in the general fund, the original and final budgeted expenditures were \$18,176,667. The actual expenditures were \$18,691,791. The City's ending unencumbered cash balance in the general fund was \$1,322,899.

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**Capital Assets and Debt Administration**

*Capital Assets*

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

	Governmental Activities		Business-Type Activities		Totals	
	2008	2007	2008	2007	2008	2007
Land	\$920,260	\$920,260	\$0	\$0	\$920,260	\$920,260
Construction in Progress	552,647	888,430	0	325,182	552,647	1,213,612
Buildings and Improvements	1,224,559	1,305,841	0	0	1,224,559	1,305,841
Equipment	296,573	472,980	18,232	22,082	314,805	495,062
Vehicles	891,513	673,757	43,857	62,780	935,370	736,537
Infrastructure	15,363,379	15,124,325	147,472	8,222,087	15,510,851	23,346,412
Totals	<u>\$19,248,931</u>	<u>\$19,385,593</u>	<u>\$209,561</u>	<u>\$8,632,131</u>	<u>\$19,458,492</u>	<u>\$28,017,724</u>

Total capital assets for the City of East Cleveland decreased from the 2007. Total governmental activities capital assets primarily decreased due to more depreciation taken in 2008 than new capital assets being acquired. This was offset by an increase to the City's construction in progress for storm sewer and road improvement projects. Business-Type Activities capital assets decreased due to the turning over of the water lines to the City of Cleveland. See Note 9 in the financial statements for more information regarding the City's capital assets. See Note 19 in the financial statements for more information regarding the discontinued operations.

***Debt***

The outstanding debt for the City of East Cleveland as of December 31, 2008 was \$7,880,168. This balance reflected a decrease of \$200,405 from 2007.

**Table 5**  
**Outstanding Debt at December 31**

	Governmental Activities		Business-Type Activities		Totals	
	2008	2007	2008	2007	2008	2007
Capital Leases	\$359,390	\$60,851	\$0	\$0	\$359,390	\$60,851
Police and Fire Liability	1,476,839	1,506,405	0	0	1,476,839	1,506,405
OPWC Loans	3,871,915	3,935,225	303,539	345,407	4,175,454	4,280,632
Notes Payable	1,868,485	2,232,685	0	0	1,868,485	2,232,685
Totals	<u>\$7,576,629</u>	<u>\$7,735,166</u>	<u>\$303,539</u>	<u>\$345,407</u>	<u>\$7,880,168</u>	<u>\$8,080,573</u>

**City of East Cleveland, Ohio**  
*Management's Discussion and Analysis*  
*For the Year Ended December 31, 2008*  
*Unaudited*

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During 2008, principal payments totaling \$14,835 were made on the City's backhoe lease during the year leaving an outstanding principal balance at December 31, 2008 of \$15,456. The City entered into one new capital leases for police vehicles in 2008 for \$340,000. For 2008, the principal payment for all police vehicles totaled \$20,197 and there was \$6,429 in principal payments on all the outstanding copier leases.

The Ohio Public Works Commission (OPWC) governmental activities loans are comprised of three separate, zero percent interest loans. The purpose of the loans is for the construction and improvement of streets. The loans will be paid over a period of 20 years from the general fund and street 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 projects, most notable of which is the 1997 water main project. These loans will be repaid over a period of 20 years by user fees. The loans will be retired between 2014 and 2020.

See Notes 11 and 12 in the financial statements for more information regarding the City's debt.

#### **Current Financial Issues**

The City of East Cleveland continues to struggle to maintain a revenue base to deliver services to the citizens of East Cleveland. Over the last fifteen years, income tax collections have increased from \$6,630,088, in 1992 to \$7,012,323 in 2004 or 5.77 on a cash basis. Income tax collections for 2008 are \$6,273,564 on a cash basis.

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

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

#### **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 Ron Brooks, Finance Director, City of East Cleveland, 14340 Euclid Avenue, East Cleveland, Ohio 44112, Telephone (216) 681-2319, e-mail [rbrooks@eastcleveland.org](mailto:rbrooks@eastcleveland.org).

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## Basic Financial Statements

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**City of East Cleveland, Ohio**

*Statement of Net Assets*

*December 31, 2008*

	Governmental Activities	Business-Type Activities	Total
<b>Assets</b>			
Equity in Pooled Cash and Cash Equivalents	\$3,408,739	\$0	\$3,408,739
Cash and Cash Equivalents In Segregated Accounts	119,980	0	119,980
Accounts Receivable	562,471	777,837	1,340,308
Internal Balances	741,173	(741,173)	0
Intergovernmental Receivable	2,327,341	0	2,327,341
Prepaid Items	10,436	0	10,436
Materials and Supplies Inventory	12,527	0	12,527
Municipal Income Taxes Receivable	2,239,215	0	2,239,215
Property Taxes Receivable	3,809,077	0	3,809,077
Nondepreciable Capital Assets	1,472,907	0	1,472,907
Depreciable Capital Assets, Net	17,776,024	209,561	17,985,585
<i>Total Assets</i>	<u>32,479,890</u>	<u>246,225</u>	<u>32,726,115</u>
<b>Liabilities</b>			
Accounts Payable	182,266	4,695	186,961
Accrued Wages	241,360	16,594	257,954
Intergovernmental Payable	1,152,581	38,375	1,190,956
Matured Compensated Absences Payable	3,771	0	3,771
Accrued Interest Payable	22,520	0	22,520
Deferred Revenue	1,725,030	0	1,725,030
Notes Payable	1,868,485	0	1,868,485
Matured OPWC Loans Payable	10,594	0	10,594
Long-Term Liabilities:			
Due Within One Year	669,449	48,957	718,406
Due In More Than One Year	6,685,787	294,859	6,980,646
<i>Total Liabilities</i>	<u>12,561,843</u>	<u>403,480</u>	<u>12,965,323</u>
<b>Net Assets</b>			
Invested in Capital Assets, Net of Related Debt	15,017,626	209,561	15,227,187
Restricted for:			
Capital Projects	1,605,694	0	1,605,694
Local Law Enforcement	220,497	0	220,497
Home Program	90,024	0	90,024
Emergency Medical Services	887,031	0	887,031
Other Purposes	2,675	0	2,675
Unrestricted (Deficit)	2,094,500	(366,816)	1,727,684
<i>Total Net Assets (Deficit)</i>	<u>\$19,918,047</u>	<u>(\$157,255)</u>	<u>\$19,760,792</u>

See accompanying notes to the basic financial statements

**City of East Cleveland, Ohio**  
*Statement of Activities*  
For the Year Ended December 31, 2008

	Program Revenues			
	Expenses	Charges for Services and Operating Assessments	Operating Grants and Contributions	Capital Grants and Contributions
<b>Governmental Activities:</b>				
General Government	\$6,839,353	\$921,630	\$0	\$0
Security of Persons and Property	9,845,632	1,776,166	24,762	0
Transportation	1,941,253	83,122	448,208	552,646
Community Development	2,128,145	29,074	1,547,217	0
Leisure Time Activities	241,157	28,689	0	0
Basic Utility Services	1,008,222	127,912	0	0
Interest and Fiscal Charges	132,600	0	0	0
<i>Total Governmental Activities</i>	<u>22,136,362</u>	<u>2,966,593</u>	<u>2,020,187</u>	<u>552,646</u>
<b>Business-Type Activities:</b>				
Water	1,460,097	934,692	0	0
Sewer	1,493,249	611,434	0	179,508
<i>Total Business-Type Activities</i>	<u>2,953,346</u>	<u>1,546,126</u>	<u>0</u>	<u>179,508</u>
<i>Total</i>	<u>\$25,089,708</u>	<u>\$4,512,719</u>	<u>\$2,020,187</u>	<u>\$732,154</u>

**General Revenues**

Property Taxes Levied for:

    General Purposes

    Capital Projects

    Police Pension Liability

    Fire Pension Liability

Municipal Income Taxes Levied for

    General Purposes

Hotel Tax

Grants and Entitlements not Restricted to Specific Programs

Interest

Other

*Total General Revenues*

Transfers

*Total General Revenues and Transfers*

Discontinued Operations - Note 19

    Loss From Discontinued Water Operations

Change in Net Assets

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

*Net Assets (Deficit) End of Year*

See accompanying notes to the basic financial statements

Net (Expense) Revenue and Changes in Net Assets		
Primary Government		
Governmental Activities	Business-Type Activities	Total
(\$5,917,723)	0	(\$5,917,723)
(8,044,704)	0	(8,044,704)
(857,277)	0	(857,277)
(551,854)	0	(551,854)
(212,468)	0	(212,468)
(880,310)	0	(880,310)
(132,600)	0	(132,600)
<u>(16,596,936)</u>	<u>0</u>	<u>(16,596,936)</u>
0	(525,405)	(525,405)
<u>0</u>	<u>(702,307)</u>	<u>(702,307)</u>
0	(1,227,712)	(1,227,712)
<u>(16,596,936)</u>	<u>(1,227,712)</u>	<u>(17,824,648)</u>
2,056,242	0	2,056,242
365,918	0	365,918
54,887	0	54,887
54,887	0	54,887
6,101,853	0	6,101,853
1,803	0	1,803
6,457,491	0	6,457,491
74,101	9,239	83,340
<u>839,717</u>	<u>17,737</u>	<u>857,454</u>
16,006,899	26,976	16,033,875
<u>(1,100,000)</u>	<u>1,100,000</u>	<u>0</u>
14,906,899	1,126,976	16,033,875
<u>0</u>	<u>(8,096,675)</u>	<u>(8,096,675)</u>
(1,690,037)	(8,197,411)	(9,887,448)
<u>21,608,084</u>	<u>8,040,156</u>	<u>29,648,240</u>
<u>\$19,918,047</u>	<u>(\$157,255)</u>	<u>\$19,760,792</u>

**City of East Cleveland, Ohio**

*Balance Sheet*

*Governmental Funds*

*December 31, 2008*

	<u>General</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
<b>Assets</b>			
Equity in Pooled Cash and Cash Equivalents	\$475,240	\$2,933,499	\$3,408,739
Cash and Cash Equivalents			
In Segregated Accounts	0	119,980	119,980
Accounts Receivable	27,773	534,698	562,471
Interfund Receivable	1,095,108	0	1,095,108
Intergovernmental Receivable	1,946,309	381,032	2,327,341
Prepaid Items	10,436	0	10,436
Materials and Supplies Inventory	7,698	4,829	12,527
Municipal Income Tax Receivable	2,239,215	0	2,239,215
Property Taxes Receivable	3,029,268	779,809	3,809,077
<i>Total Assets</i>	<u>\$8,831,047</u>	<u>\$4,753,847</u>	<u>\$13,584,894</u>
<b>Liabilities</b>			
Accounts Payable	\$141,645	\$40,621	\$182,266
Accrued Wages	220,761	20,599	241,360
Intergovernmental Payable	1,105,402	47,179	1,152,581
Matured Compensated Absences Payable	910	2,861	3,771
Interfund Payable	0	353,935	353,935
Matured OPWC Loans Payable	0	10,594	10,594
Notes Payable	1,868,485	0	1,868,485
Deferred Revenue	6,228,264	961,820	7,190,084
<i>Total Liabilities</i>	<u>9,565,467</u>	<u>1,437,609</u>	<u>11,003,076</u>
<b>Fund Balances</b>			
Reserved for Encumbrances	117,538	1,371,641	1,489,179
Unreserved			
Undesignated, Reported in:			
General Fund (Deficit)	(851,958)	0	(851,958)
Special Revenue Funds	0	757,248	757,248
Debt Service Fund	0	12,370	12,370
Capital Projects Funds	0	1,174,979	1,174,979
<i>Total Fund Balances (Deficit)</i>	<u>(734,420)</u>	<u>3,316,238</u>	<u>2,581,818</u>
<i>Total Liabilities and Fund Balances</i>	<u>\$8,831,047</u>	<u>\$4,753,847</u>	<u>\$13,584,894</u>

See accompanying notes to the basic financial statements

**City of East Cleveland, Ohio**  
*Reconciliation of Total Governmental Fund Balances to  
 Net Assets of Governmental Activities  
 December 31, 2008*

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<b>Total Governmental Funds Balances</b>	<b>\$2,581,818</b>
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*Amounts reported for governmental activities in the  
 statement of net assets are different because*

Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.	19,248,931
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Other long-term assets are not available to pay for current period expenditures and therefore are deferred in the funds:

Property Taxes	2,084,047
Municipal Income Taxes	1,872,265
Intergovernmental	1,508,742

Total	5,465,054
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In the statement of activities, interest is accrued on outstanding liabilities, whereas in governmental funds, an interest expenditure is reported when due.	(22,520)
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Long-term liabilities are not due and payable in the current period and therefore are not reported in the funds:

OPWC Loans	(3,871,915)
Capital Leases	(359,390)
Police and Fire Pension Liability	(1,476,839)
Compensated Absences	(1,647,092)

Total	(7,355,236)
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<i>Net Assets of Governmental Activities</i>	<b>\$19,918,047</b>
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See accompanying notes to the basic financial statements

**City of East Cleveland, Ohio**  
*Statement of Revenues, Expenditures and Changes in Fund Balances*  
*Governmental Funds*  
*For the Year Ended December 31, 2008*

	General	Other Governmental Funds	Total Governmental Funds
<b>Revenues</b>			
Property Taxes	\$1,757,297	\$398,737	\$2,156,034
Hotel Tax	1,803	0	1,803
Municipal Income Taxes	6,175,861	0	6,175,861
Special Assessments	329,460	0	329,460
Intergovernmental	6,380,430	2,677,230	9,057,660
Fees, Licenses and Permits	293,441	105,104	398,545
Fines and Forfeitures	1,145,102	123,602	1,268,704
Charges for Services	504,565	465,319	969,884
Interest	69,966	4,135	74,101
Other	836,667	3,050	839,717
<i>Total Revenues</i>	<u>17,494,592</u>	<u>3,777,177</u>	<u>21,271,769</u>
<b>Expenditures</b>			
Current:			
General Government	6,357,919	37,200	6,395,119
Security of Persons and Property	9,648,683	259,386	9,908,069
Transportation	647,803	652,894	1,300,697
Community Development	225,607	1,896,810	2,122,417
Leisure Time Activities	228,058	0	228,058
Basic Utility Services	1,008,008	0	1,008,008
Capital Outlay	0	1,121,978	1,121,978
Debt Service:			
Principal Retirement	19,508	204,388	223,896
Interest and Fiscal Charges	64,287	69,964	134,251
<i>Total Expenditures</i>	<u>18,199,873</u>	<u>4,242,620</u>	<u>22,442,493</u>
<i>Excess of Revenues Under Expenditures</i>	<u>(705,281)</u>	<u>(465,443)</u>	<u>(1,170,724)</u>
<b>Other Financing Sources (Uses)</b>			
Proceeds of OPWC Loans	0	89,559	89,559
Inception of a Capital Lease	0	340,000	340,000
Transfers In	0	345,131	345,131
Transfers Out	(1,445,131)	0	(1,445,131)
<i>Total Other Financing Sources (Uses)</i>	<u>(1,445,131)</u>	<u>774,690</u>	<u>(670,441)</u>
<i>Net Change in Fund Balances</i>	(2,150,412)	309,247	(1,841,165)
<i>Fund Balances Beginning of Year</i>	<u>1,415,992</u>	<u>3,006,991</u>	<u>4,422,983</u>
<i>Fund Balances (Deficit) End of Year</i>	<u>(\$734,420)</u>	<u>\$3,316,238</u>	<u>\$2,581,818</u>

See accompanying notes to the basic financial statements

**City of East Cleveland, Ohio**  
*Reconciliation of the Statement of Revenues, Expenditures and Changes  
in Fund Balances of Governmental Funds to the Statement of Activities  
For the Year Ended December 31, 2008*

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**Net Change in Fund Balances - Total Governmental Funds** (\$1,841,165)

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

Governmental funds report capital outlays as expenditures.

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

Capital Outlay	1,047,966	
Depreciation	(1,184,628)	
Total		(136,662)

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

Property Taxes	375,900	
Municipal Income Taxes	(74,008)	
Intergovernmental	(27,336)	
Total		274,556

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

Inception of Capital Lease	(340,000)	
OPWC Loan Issued	(89,559)	
Total		(429,559)

Repayment of long-term liabilities is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets. 223,896

In the statement of activities interest is accrued whereas in governmental funds, an interest expenditure is reported when due. 1,651

Some expenses, such as compensated absences, reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds. 217,246

*Change in Net Assets of Governmental Activities* (\$1,690,037)

See accompanying notes to the basic financial statements

**City of East Cleveland, Ohio**  
*Statement of Revenues, Expenditures and Changes*  
*In Fund Balance - Budget (Non-GAAP Basis) and Actual*  
*General Fund*  
*For the Year Ended December 31, 2008*

	<u>Budgeted Amounts</u>		<u>Actual</u>	Variance with
	<u>Original</u>	<u>Final</u>		Final Budget Positive (Negative)
<b>Revenues</b>				
Property Taxes	\$1,460,694	\$1,739,695	\$1,757,297	\$17,602
Hotel Tax	1,803	1,803	1,803	0
Municipal Income Taxes	5,353,815	6,218,981	6,273,564	54,583
Special Assessments	281,159	326,594	329,460	2,866
Intergovernmental	5,677,464	6,552,268	6,607,459	55,191
Fees, Licenses and Permits	253,219	294,138	296,720	2,582
Fines and Forfeitures	977,077	1,134,970	1,144,932	9,962
Charges for Services	460,185	534,550	539,242	4,692
Interest	59,708	69,357	69,966	609
Other	688,734	800,032	807,054	7,022
<i>Total Revenues</i>	<u>15,213,858</u>	<u>17,672,388</u>	<u>17,827,497</u>	<u>155,109</u>
<b>Expenditures</b>				
Current:				
General Government	5,836,319	5,836,319	6,362,119	(525,800)
Security of Persons and Property	8,779,381	8,779,381	9,729,184	(949,803)
Transportation	1,274,405	1,274,405	718,297	556,108
Community Development	282,486	282,486	221,580	60,906
Leisure Time Activities	274,678	274,678	222,754	51,924
Basic Utility Services	1,233,628	1,233,628	1,012,979	220,649
Debt Service:				
Principal Retirement	385,135	385,135	364,200	20,935
Interest and Fiscal Charges	110,635	110,635	60,678	49,957
<i>Total Expenditures</i>	<u>18,176,667</u>	<u>18,176,667</u>	<u>18,691,791</u>	<u>(515,124)</u>
<i>Excess of Revenues Under Expenditures</i>	(2,962,809)	(504,279)	(864,294)	(360,015)
<b>Other Financing Uses</b>				
Transfers Out	(1,460,131)	(1,460,131)	(1,445,131)	15,000
<i>Net Change in Fund Balance</i>	(4,422,940)	(1,964,410)	(2,309,425)	(345,015)
<i>Fund Balance Beginning of Year</i>	3,439,115	3,439,115	3,439,115	0
Prior Year Encumbrances Appropriated	193,209	193,209	193,209	0
<i>Fund Balance (Deficit) End of Year</i>	<u>(\$790,616)</u>	<u>\$1,667,914</u>	<u>\$1,322,899</u>	<u>(\$345,015)</u>

See accompanying notes to the basic financial statements



**City of East Cleveland, Ohio***Statement of Fund Net Assets**Enterprise Funds**December 31, 2008*

	Business-Type Activities		
	Water	Sewer	Total
<b>Assets</b>			
<i>Current Assets:</i>			
Accounts Receivable	\$381,140	\$396,697	\$777,837
<i>Noncurrent Assets:</i>			
Depreciable Capital Assets, Net	56,216	153,345	209,561
<i>Total Assets</i>	<u>437,356</u>	<u>550,042</u>	<u>987,398</u>
<b>Liabilities</b>			
<i>Current Liabilities:</i>			
Accounts Payable	4,695	0	4,695
Accrued Wages	7,004	9,590	16,594
Intergovernmental Payable	36,926	1,449	38,375
Interfund Payable	160,533	580,640	741,173
Compensated Absences Payable	3,355	3,823	7,178
OPWC Loans Payable	41,779	0	41,779
<i>Total Current Liabilities</i>	<u>254,292</u>	<u>595,502</u>	<u>849,794</u>
<i>Long-Term Liabilities:</i>			
Compensated Absences Payable	29,873	3,226	33,099
OPWC Loans Payable	261,760	0	261,760
<i>Total Long-Term Liabilities</i>	<u>291,633</u>	<u>3,226</u>	<u>294,859</u>
<i>Total Liabilities</i>	<u>545,925</u>	<u>598,728</u>	<u>1,144,653</u>
<b>Net Assets</b>			
Invested in Capital Assets, Net of Related Debt	56,216	153,345	209,561
Unrestricted (Deficit)	(164,785)	(202,031)	(366,816)
<i>Total Net Assets (Deficit)</i>	<u>(\$108,569)</u>	<u>(\$48,686)</u>	<u>(\$157,255)</u>

See accompanying notes to the basic financial statements

**City of East Cleveland, Ohio**  
*Statement of Revenues,  
Expenses and Changes in Fund Net Assets  
Enterprise Funds  
For the Year Ended December 31, 2008*

	Business-Type Activities		
	Water	Sewer	Total
<b>Operating Revenues</b>			
Charges for Services	\$934,692	\$611,434	\$1,546,126
Other	17,737	0	17,737
<i>Total Operating Revenues</i>	<u>952,429</u>	<u>611,434</u>	<u>1,563,863</u>
<b>Operating Expenses</b>			
Personal Services	433,778	452,649	886,427
Materials and Supplies	135,493	4,682	140,175
Contractual Services	516,991	996,927	1,513,918
Depreciation	308,059	7,667	315,726
Other	51,276	29,657	80,933
<i>Total Operating Expenses</i>	<u>1,445,597</u>	<u>1,491,582</u>	<u>2,937,179</u>
<i>Operating Loss</i>	<u>(493,168)</u>	<u>(880,148)</u>	<u>(1,373,316)</u>
<b>Non-Operating Revenues (Expenses)</b>			
Interest	4,527	4,712	9,239
Loss on Disposal of Capital Assets	(14,500)	0	(14,500)
Intergovernmental	0	177,841	177,841
<i>Total Non-Operating Revenues (Expenses)</i>	<u>(9,973)</u>	<u>182,553</u>	<u>172,580</u>
<i>Loss before Transfers</i>	(503,141)	(697,595)	(1,200,736)
Transfers In	0	1,100,000	1,100,000
<i>Income (Loss) From Continuing Operations</i>	(503,141)	402,405	(100,736)
<b>Discontinued Operations - Note 19</b>			
Loss From Discontinued Water Operations	(8,096,675)	0	(8,096,675)
<i>Change in Net Assets</i>	(8,599,816)	402,405	(8,197,411)
<i>Net Assets (Deficit) Beginning of Year - Restated (See Note 3)</i>	<u>8,491,247</u>	<u>(451,091)</u>	<u>8,040,156</u>
<i>Net Assets (Deficit) End of Year</i>	<u><u>(\$108,569)</u></u>	<u><u>(\$48,686)</u></u>	<u><u>(\$157,255)</u></u>

See accompanying notes to the basic financial statements

**City of East Cleveland, Ohio**  
*Statement of Cash Flows*  
*Enterprise Funds*  
For the Year Ended December 31, 2008

	Business-Type Activities		
	Water	Sewer	Total
<b>Increase (Decrease) in Cash and Cash Equivalents</b>			
<b>Cash Flows from Operating Activities</b>			
Cash Received from Customers	\$1,623,223	\$1,327,920	\$2,951,143
Other Cash Receipts	17,737	0	17,737
Cash Payments to Employees for Services	(441,254)	(449,466)	(890,720)
Cash Payments for Goods and Services	(599,504)	(959,606)	(1,559,110)
Other Cash Payments	(51,276)	(29,657)	(80,933)
<i>Net Cash Provided by Operating Activities</i>	<u>548,926</u>	<u>(110,809)</u>	<u>438,117</u>
<b>Cash Flows from Noncapital Financing Activities</b>			
Advances Out	(516,048)	(1,164,617)	(1,680,665)
Transfers In	0	1,100,000	1,100,000
<i>Net Cash Used in Noncapital Financing Activities</i>	<u>(516,048)</u>	<u>(64,617)</u>	<u>(580,665)</u>
<b>Cash Flows from Capital and Related Financing Activities</b>			
<b>Related Financing Activities</b>			
Transfer of Capital Assets	7,127	(7,127)	0
Intergovernmental	0	177,841	177,841
Principal Paid on OPWC Loans	(41,868)	0	(41,868)
Payments for Capital Acquisitions	(2,664)	0	(2,664)
<i>Net Cash Used for Capital and Related Financing Activities</i>	<u>(37,405)</u>	<u>170,714</u>	<u>133,309</u>
<b>Cash Flows from Investing Activities</b>			
Interest on Investments	4,527	4,712	9,239
<i>Net Increase in Cash and Cash Equivalent</i>	0	0	0
<i>Cash and Cash Equivalents Beginning of Year</i>	<u>0</u>	<u>0</u>	<u>0</u>
<i>Cash and Cash Equivalents End of Year</i>	<u><u>\$0</u></u>	<u><u>\$0</u></u>	<u><u>\$0</u></u>

(continued)

**City of East Cleveland, Ohio**  
*Statement of Cash Flows*  
*Enterprise Funds (continued)*  
For the Year Ended December 31, 2008

	Business-Type Activities		
	Water	Sewer	Total
<b>Reconciliation of Operating Loss to Net Cash Provided by Operating Activities</b>			
Operating Loss	(\$493,168)	(\$880,148)	(\$1,373,316)
<b>Adjustments to Reconcile Operating Loss to Net Cash Provided by Operating Activities</b>			
Depreciation	308,059	7,667	315,726
Decrease in Accounts Receivable	766,538	794,473	1,561,011
Increase (Decrease) in Liabilities:			
Accounts Payable	(10,075)	(12,166)	(22,241)
Contracts Payable	(2,644)	0	(2,644)
Accrued Wages	(47,670)	1,321	(46,349)
Compensated Absences Payable	(2,473)	3,907	1,434
Intergovernmental Payable	30,359	(25,863)	4,496
<i>Total Adjustments</i>	1,042,094	769,339	1,811,433
<i>Net Cash Provided by Operating Activities</i>	\$548,926	(\$110,809)	\$438,117

See accompanying notes to the basic financial statements

**City of East Cleveland, Ohio**  
*Statement of Fiduciary Assets and Liabilities*  
*Agency Funds*  
*December 31, 2008*

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**Assets**

Equity Pooled in Cash and Cash Equivalents	<u><u>\$11,691</u></u>
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**Liabilities**

Deposits Held and Due to Others	<u><u>\$11,691</u></u>
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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, 2008*

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**Note 1 – Description of the City and Reporting Entity**

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

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

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

***Reporting Entity***

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

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

**Note 2 – Summary of Significant Accounting Policies**

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

**City of East Cleveland, Ohio**  
*Notes to the Basic Financial Statements*  
*For The Year Ended December 31, 2008*

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**A. Basis of Presentation**

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

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

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

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

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

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

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

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

**City of East Cleveland, Ohio**  
*Notes to the Basic Financial Statements*  
*For The Year Ended December 31, 2008*

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

**Enterprise Funds** - Enterprise funds may be used to account for any activity for which a fee is charged to external users for goods or services. The following are the City's major enterprise funds:

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

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

**Fiduciary Funds** Fiduciary fund reporting focuses on net assets and changes in net assets. The fiduciary fund category is split into four classifications: pension trust funds, investment trust funds, private-purpose trust funds and agency funds. Trust funds are used to account for assets held by the City under a trust agreement for individuals, private organizations, or other governments and are therefore not available to support the City's own programs. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. The City's only fiduciary funds are agency funds which accounts for contractor bid specification deposits and for the escrow of rent with the municipal court.

### ***C. Measurement Focus***

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

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

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

### ***D. Basis of Accounting***

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



**City of East Cleveland, Ohio**  
*Notes to the Basic Financial Statements*  
*For The Year Ended December 31, 2008*

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

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

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

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

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

Property taxes for which there is an enforceable legal claim as of December 31, 2008, but which were levied to finance year 2009 operations, have been recorded as deferred revenue. Grants and entitlements received before the eligibility requirements are met are also recorded as deferred revenue.

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

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

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

***E. Cash and Cash Equivalents***

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

**City of East Cleveland, Ohio**  
*Notes to the Basic Financial Statements*  
*For The Year Ended December 31, 2008*

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

During 2008, 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 Rule2a7 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, 2008.

Investment procedures are restricted by the provisions of the Ohio Revised Code. Interest revenue credited to the general fund during 2008 amount to \$69,966, which includes \$54,457 assigned from other City funds.

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

***F. Prepaid Items***

Payments made to vendors for services that will benefit periods beyond December 31, 2008, are recorded as prepaid items using the consumption method by recording a current asset for the prepaid amount and reflecting the expenditure/expense in the year in which the services are consumed.

***G. Inventory***

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

***H. Capital Assets***

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

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

**City of East Cleveland, Ohio**  
*Notes to the Basic Financial Statements*  
*For The Year Ended December 31, 2008*

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All capital assets are depreciated except for land and construction in progress. Improvements are depreciated over the remaining useful lives of the related capital assets. Useful lives for infrastructure were estimated based on the City's historical records of necessary improvements and replacements, and new construction. Depreciation is computed using the straight-line method over the following useful lives:

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

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

***I. Interfund Balances***

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

***J. Compensated Absences***

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

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

***K. Accrued Liabilities and Long-Term Obligations***

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

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

**City of East Cleveland, Ohio**  
*Notes to the Basic Financial Statements*  
*For The Year Ended December 31, 2008*

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***L. Fund Balance Reserves***

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

***M. Net Assets***

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

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

***N. Operating Revenues and Expenses***

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

***O. Internal Activity***

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

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

***P. Extraordinary and Special Items***

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

**City of East Cleveland, Ohio**  
*Notes to the Basic Financial Statements*  
*For The Year Ended December 31, 2008*

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***Q. Estimates***

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

***R. Budgetary Process***

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

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

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

**Note 3 - Change in Accounting Principle/Change in Basis of Accounting/Restatement of Prior Year's Fund Balance/Net Assets**

***A. Change in Accounting Principle***

For 2008, the City has implemented Governmental Accounting Standards Board (GASB) Statement No. 49, "Accounting and Financial Reporting for Pollution Remediation Obligations". GASB Statement No. 49 addresses accounting and financial reporting standards for pollution (including contamination) remediation obligations, which are obligations to address the current or potential detrimental effect of existing pollution by participating in pollution remediation activities such as site assessments and cleanups. The implementation of this Statement did not result in any change to the City's financial statements.

***B. Change in Basis of Accounting***

For 2008, the City has ceased to report on the modified cash basis and reported using generally accepted accounting principles, as described in Note 2.

**City of East Cleveland, Ohio**  
*Notes to the Basic Financial Statements*  
*For The Year Ended December 31, 2008*

**B. Restatement of Fund Balance/Net Assets**

The implementation of this change had the following effects on fund balance/net assets of major and other governmental funds and proprietary funds of the City as they were previously reported.

	General	Other Governmental Funds	Total
Fund Balances/Net Assets, December 31, 2007	\$3,794,007	\$2,454,178	\$6,248,185
Asset Accruals	4,573,447	2,098,291	6,671,738
Inventory	9,225	3,483	12,708
Prepaid Items	9,106	0	9,106
Interfund Receivables/Payables	2,860,108	(439,937)	2,420,171
Liability Accruals	(9,829,901)	(1,109,024)	(10,938,925)
Adjusted Fund Balances/Net Assets, December 31, 2007	<u>\$1,415,992</u>	<u>\$3,006,991</u>	4,422,983
Capital Assets			19,385,593
Compensated Absences			(1,864,338)
Long-Term Liabilities			(5,502,481)
Accrued Interest Payable			(24,171)
Long-Term (Deferred) Assets			<u>5,190,498</u>
Adjusted Net Assets, December 31, 2007			<u>\$21,608,084</u>

The restatement of the business-type activities is presented below:

	Water	Sewer	Total
Net Assets, December 31, 2007	(\$676,581)	(\$1,743,590)	(\$2,420,171)
Asset Accruals	1,824,259	2,934,760	4,759,019
Interfund Payables	(676,581)	(1,743,590)	(2,420,171)
Current Liability Accruals	(122,686)	(47,747)	(170,433)
Capital Assets	8,479,913	152,218	8,632,131
Long-Term Liabilities	(337,077)	(3,142)	(340,219)
Adjusted Net Assets, December 31, 2007	<u>\$8,491,247</u>	<u>(\$451,091)</u>	<u>\$8,040,156</u>

**Note 4 – Compliance and Accountability**

**A. Compliance**

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

**City of East Cleveland, Ohio**  
*Notes to the Basic Financial Statements*  
For The Year Ended December 31, 2008

Fund	Original Estimated Revenues Plus Carryover Balance	Original Appropriations	Excess
<b>Governmental Funds</b>			
General Fund	\$18,846,182	\$19,636,798	(\$790,616)
<i>Special Revenue Funds:</i>			
Older Americans	83,548	289,422	(205,874)
Home Program	2,387,580	3,043,475	(655,895)
Domestic Violence	(3,752)	40,421	(44,173)
Victims of Crimes Act	60,679	66,524	(5,845)
Community Cops	(5,333)	0	(5,333)
<b>Enterprise Funds</b>			
Water	1,089,163	2,157,802	(1,068,639)

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

Fund	Final Estimated Revenues Plus Carryover Balance	Final Appropriations	Excess
<b>Governmental Funds</b>			
<i>Special Revenue Funds:</i>			
Older Americans	\$75,823	\$289,422	(\$213,599)
Emergency Medical Services	472,745	484,503	(11,758)
Special Purpose Grant	2,250	99,585	(97,335)
Home Program	1,401,101	3,043,475	(1,642,374)
Community Cops	(5,333)	0	(5,333)
<b>Enterprise Funds</b>			
Water	641,963	2,157,802	(1,515,839)

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

Fund	Amount
<b>Governmental Funds</b>	
Older Americans	(\$319,649)
Domestic Violence	(19,450)
Victims of Crimes Act	(9,503)
Community Cops	(5,333)
<b>Enterprise Funds</b>	
Water	(160,533)
Sewer	(580,640)

**City of East Cleveland, Ohio**  
*Notes to the Basic Financial Statements*  
*For The Year Ended December 31, 2008*

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
<b>General Fund</b>			
General Government			
Mayor			
Personal Services	\$164,553	\$182,423	(\$17,870)
Materials and Supplies	9,453	13,146	(3,693)
Capital Outlay	2,028	2,244	(216)
Finance			
Personal Services	319,604	379,954	(60,350)
Materials and Supplies	10,464	17,687	(7,223)
Other	2,089	2,782	(693)
Law Director			
Other	0	244	(244)
Courts			
Other	0	1,547	(1,547)
Civil Service			
Personal Services	10,110	15,648	(5,538)
Tax Department			
Contractual Services	264,947	388,052	(123,105)
Other	0	1,921	(1,921)
Capital Outlay	0	15	(15)
Engineering and Building			
Contractual Services	32,148	35,789	(3,641)
Central Services			
Materials and Supplies	4,000	19,345	(15,345)
Contractual Services	2,280,150	2,817,007	(536,857)
Other	87,000	246,009	(159,009)
Land and Buildings			
Personal Services	0	89,569	(89,569)
EDP - Vital Statistics			
Personal Services	108,254	122,589	(14,335)
Contractual Services	28,951	35,871	(6,920)
Other	0	1,540	(1,540)
Purchasing			
Personal Services	59,485	61,161	(1,676)
Security of Persons and Property			
Police Department			
Personal Services	4,080,510	4,987,556	(907,046)
Materials and Supplies	127,800	192,782	(64,982)
Capital Outlay	3,851	3,974	(123)



**City of East Cleveland, Ohio**  
*Notes to the Basic Financial Statements*  
For The Year Ended December 31, 2008

Fund/Function	Appropriations	Expenditures Plus Encumbrances	Excess
<b><i>General Fund (continued)</i></b>			
Fire Department			
Personal Services	\$4,079,158	\$4,220,062	(\$140,904)
Transportation			
Service Department			
Contractual Services	19,397	196,922	(177,525)
Community Environment			
Forestry			
Personal Services	0	56,067	(56,067)
Basic Utility Services			
Street Lighting			
Other	0	3,168	(3,168)
Refuse Collection			
Personal Services	0	2,659	(2,659)
Snow Removal			
Personal Services	0	24,935	(24,935)
<b><i>Special Revenue Funds</i></b>			
Street			
Transportation			
Personal Services	305,794	363,215	(57,421)
Materials and Supplies	237,972	287,416	(49,444)
Other	1,000	18,774	(17,774)
Capital Outlay	10,500	18,022	(7,522)
Older Americans			
Community Environment			
Personal Services	237,600	299,617	(62,017)
Contractual Services	33,700	49,834	(16,134)
Other	0	1,468	(1,468)
Community Environment			
Personal Services	43,000	44,996	(1,996)
Emergency Medical Services			
Security of Persons and Property			
Capital Outlay	17,910	24,442	(6,532)
FEMA Grant			
Security of Persons and Property			
Contractual Services	28,206	28,616	(410)
Capital Outlay	5,213	7,193	(1,980)
Home Program			
Community Environment			
Materials and Supplies	15,706	17,764	(2,058)
Domestic Violence			
Security of Persons and Property			
Contractual Services	8,421	39,082	(30,661)
Other	0	4,389	(4,389)

**City of East Cleveland, Ohio**  
*Notes to the Basic Financial Statements*  
For The Year Ended December 31, 2008

Fund/Function	Appropriations	Expenditures Plus Encumbrances	Excess
<b><i>Special Revenue Funds (continued)</i></b>			
Computer Legalize Fees			
General Government			
Contractual Services	\$0	\$6,610	(\$6,610)
Victims of Crimes Act			
Security of Persons and Property			
Contractual Services	14,032	29,932	(15,900)
Courts Community Service			
Security of Persons and Property			
Contractual Services	0	325	(325)
Engineering and Building Department			
General Government			
Contractual Services	0	146	(146)
<b><i>Capital Projects Fund</i></b>			
Street Resurfacing			
Capital Outlay	0	410,023	(410,023)
Permanent Improvement			
Capital Outlay	109,028	161,009	(51,981)
<b><i>Enterprise Funds</i></b>			
Water Fund			
Other	52,232	52,303	(71)
Sewer Fund			
Personal Services	361,081	449,466	(88,385)

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
Community Development	\$1,086,835	\$2,269,603	(\$1,182,768)
Special Purpose Grant (HUD)	(170,088)	158,841	(328,929)
Home Program Fund	493,584	1,328,449	(834,865)
Street Resurfacing	1,087,534	1,100,000	(12,466)
Water	3,726,439	4,483,048	(756,609)
Sewer	3,650,129	4,930,748	(1,280,619)

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

**City of East Cleveland, Ohio**  
*Notes to the Basic Financial Statements*  
*For The Year Ended December 31, 2008*

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**B. Accountability**

The following funds had deficit fund balances/net assets as of December 31, 2008:

<u>Fund</u>	<u>Amount</u>
<b>General Fund</b>	\$734,420
<b>Special Revenue Funds</b>	
Older Americans	343,707
Domestic Violence	22,245
Victims of Crimes Act	13,294
<b>Enterprise Funds</b>	
Water	108,569
Sewer	48,686

The general fund concluded 2008 with a deficit fund balance of \$734,420. The City has experienced a financial shortfall which has resulted in deficit spending in the general fund. The City is working on a plan to alleviate the financial shortfall. The City will begin to aggressively collect the almost \$6 million in outstanding speeding tickets. The money will be deposited into the general fund and then can be transferred to the deficit funds.

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

The water and sewer enterprise funds' deficits resulted from expenses for contractual commitments exceeding revenues. The City will review operations to determine if steps need to be taken to ensure that the funds are self-sustaining.

**Note 5 - Budgetary Basis of Accounting**

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

1. Revenues are recorded when received in cash (budget) as opposed to when susceptible to accrual (GAAP).
2. Expenditures are recorded when paid in cash (budget) as opposed to when the liability is incurred (GAAP).
3. Encumbrances are treated as expenditures (budget) rather than as a reservation of fund balance (GAAP).

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

**City of East Cleveland, Ohio**  
*Notes to the Basic Financial Statements*  
*For The Year Ended December 31, 2008*

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Net Change in Fund Balance

	<u>General</u>
GAAP Basis	(\$2,150,412)
Net Adjustment for Revenue Accruals	332,905
Net Adjustment for Expenditures Accruals	937
Principal Retirement	(344,692)
Encumbrances	<u>(148,163)</u>
Budget Basis	<u><u>(\$2,309,425)</u></u>

**Note 6 – Deposits and Investments**

Monies held by the City are classified by State statute into three categories.

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

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

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

Interim monies held by the City can be deposited or invested in the following securities:

1. United States Treasury bills, bonds, notes, or any other obligation or security issued by the United States Treasury, or any other obligation guaranteed as to principal and interest by the United States;
2. Bonds, notes, debentures, or any other obligation or security issued by any federal government agency or instrumentality including, but not limited to, the Federal National Mortgage Association, Federal Home Loan Bank, Federal Farm Credit Bank, Federal Home Loan Mortgage Corporation, Government National Mortgage Association, and Student Loan Marketing Association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;
3. Written repurchase agreements in the securities listed above;
4. Bonds and other obligations of the State of Ohio or Ohio local governments;
5. Time certificates of deposit or savings or deposit accounts including, but not limited to, passbook accounts;
6. No-load money market mutual funds consisting exclusively of obligations described in division (1) or (2) and repurchase agreements secured by such obligations;

**City of East Cleveland, Ohio**  
*Notes to the Basic Financial Statements*  
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7. The State Treasurer's investment pool (STAROhio);
8. Commercial paper and banker's acceptances if training requirements have been met.

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

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

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

Investments

As of December 31, 2008, the City had the following investments:

Investment Type	Fair Value	Average Maturity (days)
Victory Federal Money Market Mutual Fund	\$3,237,625	30
STAROhio	572,018	55
Repurchase Agreements:		
Federal Home Loan Mortgage Corporation Notes	406,375	daily
Total Investments	\$4,216,018	

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

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

**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, 2008:

**City of East Cleveland, Ohio**  
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Investment Issuer	Percentage of Investments
Victory Federal Money Market Mutual Fund	76.79 %
STAROhio	13.57
Repurchase Agreements:	
Federal Home Loan Mortgage Corporation Notes	9.64

**Note 7 - Receivables**

Receivables at December 31, 2008, consisted primarily of municipal income taxes, property taxes, intergovernmental receivables arising from entitlements and shared revenues, and accounts (billings for user charged services, including unbilled utility services). All receivables are expected to be collected within one year except property taxes, income taxes and accounts receivable which have significant delinquencies and are expected to be collected over several years.

The allowance for doubtful accounts was \$1,166,428 and the collectible aged accounts receivable were \$777,837. Enterprise funds accounts receivable consist of the following:

	Water	Sewer	Total
Current Accounts Receivable (less than 30 days past due)	\$0	\$0	\$0
Aged Accounts 12/31/08 (more than 31 days past due)	952,690	991,575	1,944,265
Total Enterprise Funds Accounts Receivable	952,690	991,575	1,944,265
Less Uncollectables	(571,550)	(594,878)	(1,166,428)
Enterprise Funds Accounts Receivable	\$381,140	\$396,697	\$777,837

**A. Property Taxes**

Property taxes include amounts levied against all real, public utility, and tangible personal property located in the City. Property tax revenue received during 2008 for real and public utility property taxes represents collections of the 2007 taxes. Property tax payments received during 2008 for tangible personal property (other than public utility property) are for 2008 taxes.

2008 real property taxes are levied after October 1, 2008, on the assessed value as of January 1, 2008, the lien date. Assessed values are established by State law at 35 percent of appraised market value. 2008 real property taxes are collected in and intended to finance 2009.

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

Public utility tangible personal property currently is assessed at varying percentages of true value; public utility real property is assessed at 35 percent of true value. 2008 public utility property taxes which became a lien December 31, 2007, are levied after October 1, 2008, and are collected in 2009 with real property taxes.

**City of East Cleveland, Ohio**  
*Notes to the Basic Financial Statements*  
*For The Year Ended December 31, 2008*

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2008 tangible personal property taxes are levied after October 1, 2007, on the value as of December 31, 2007. Collections are made in 2008. Tangible personal property assessments are being phased out – the assessment percentage for all property including inventory for 2008 is 6.25 percent. This will be reduced to zero for 2009. Payments by multi-county taxpayers are due September 20. Single county taxpayers may pay annually or semi-annually. If paid annually, payment is due April 30; if paid semi-annually, the first payment is due April 30, with the remainder payable September 20.

The full tax rate for all City operations for the year ended December 31, 2008, was \$12.70 per \$1,000 of assessed value. The assessed values of real and tangible personal property upon which 2008 property tax receipts were based are as follows:

Real Property	\$202,931,650
Tangible Personal Property	7,925,760
Public Utility Property	<u>7,870,760</u>
Total Assessed Values	<u><u>\$218,728,170</u></u>

The County Treasurer collects property taxes on behalf of all taxing districts in the County, including the City of East Cleveland. The County Auditor periodically remits to the City its portion of the taxes collected. Property taxes receivable represents real and tangible personal property taxes and public utility taxes and outstanding delinquencies which are measurable as of December 31, 2008 and for which there is an enforceable legal claim. In the general fund, the police and fire pension special revenue funds, and the permanent improvement capital projects fund, the entire receivable has been offset by deferred revenue since the current taxes were not levied to finance 2008 operations and the collections of delinquent taxes during the available period is not subject to reasonable estimation. On a full accrual basis, collectible delinquent property taxes have been recorded as a receivable and a revenue while the remainder of the receivable is deferred.

***B. Income Taxes***

The City levies a municipal income tax of two percent on all salaries, wages, lottery winnings, commissions and other compensation, and net profits earned within the City as well as on incomes of residents earned outside of the City. Employers within the City are required to withhold income tax on employee compensation and remit the tax to the Regional Income Tax Agency (RITA) at least quarterly. Corporations and other individual taxpayers are required to file a declaration annually and quarterly estimated tax payments are recommended. Income tax proceeds are received by the general fund.

***C. Intergovernmental Receivables***

A summary of intergovernmental receivables follows:

**City of East Cleveland, Ohio**  
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Intergovernmental Receivables	Amount
Local Government	\$1,759,250
Homestead and Rollback	166,342
Home Program Grant	119,932
Gasoline Tax	109,405
Gasoline Cents per Gallon	51,685
Auto License Tax	34,968
Permissive Tax	31,295
Public Utility Reimbursement	26,329
Inheritance	23,633
Liquor Permits	4,502
<i>Total</i>	\$2,327,341

**Note 8 – Capital Leases**

The City has capital leases for a backhoe, three Toshiba copiers, two leases with Metrolease for copiers and a new lease for 10 police vehicles. The City’s lease obligations meet the criteria of a capital lease as defined by Financial Accounting Standards Board Statement No. 13, “Accounting for Leases,” which defines a capital lease generally as one which transfers benefits and risks of ownership to the lessee. Capital lease payments are reflected as debt service expenditures in various funds on the basic financial statements. The governmental equipment has been capitalized in the amount of \$416,083, the present value of the minimum lease payments at the inception of the leases.

**Governmental Activities:**

Asset	
Vehicles	\$321,195
Equipment	94,888
<i>Total Capital Assets, Being Depreciated:</i>	416,083
Accumulated Depreciation	
Vehicles	32,120
Equipment	60,130
<i>Total Accumulated Depreciation</i>	92,250
<i>Governmental Activities Capital Assets, Net</i>	\$323,833

The following is a schedule of the future minimum lease payments required under the capital leases and the present value of the minimum lease payments as of December 31, 2008.



**City of East Cleveland, Ohio**  
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For The Year Ended December 31, 2008

Year	Amount
2009	102,146
2010	86,290
2011	83,985
2012	79,413
2013	51,143
Total minimum lease payments	402,977
Less: Amount representing interest	(43,587)
Present Value of minimum lease payments	<u>\$359,390</u>

**Note 9 - Capital Assets**

Capital asset activity for the year ended December 31, 2008, was as follows:

	Balance 12/31/2007	Additions	Deductions	Balance 12/31/2008
<b>Business-Type Activities:</b>				
<i>Capital Assets not being Depreciated:</i>				
Construction in Progress	\$325,182	\$2,664	(\$327,846)	\$0
<i>Capital Assets being Depreciated:</i>				
Equipment	99,110	0	0	99,110
Vehicles	218,494	0	(14,500)	203,994
Infrastructure	11,393,094	505,687	(11,690,331)	208,450
<i>Total Capital Assets being Depreciated</i>	<u>11,710,698</u>	<u>505,687</u>	<u>(11,704,831)</u>	<u>511,554</u>
<i>Less Accumulated Depreciation:</i>				
Equipment	(77,028)	(3,850)	0	(80,878)
Vehicles	(155,714)	(4,423)	0	(160,137)
Infrastructure	(3,171,007)	(307,453)	3,417,482	(60,978)
<i>Total Accumulated Depreciation</i>	<u>(3,403,749)</u>	<u>(315,726)</u>	<u>3,417,482</u>	<u>(301,993)</u>
Total Capital Assets being Depreciated, Net	<u>8,306,949</u>	<u>189,961</u>	<u>(8,287,349)</u>	<u>209,561</u>
Business Type Activities Capital Assets, Net	<u>\$8,632,131</u>	<u>\$192,625</u>	<u>(\$8,615,195)</u>	<u>\$209,561</u>

**City of East Cleveland, Ohio**  
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<b>Governmental Activities</b>	Balance 12/31/2007	Additions	Deductions	Balance 12/31/2008
<b><i>Capital Assets not being Depreciated:</i></b>				
Land	\$920,260	\$0	\$0	\$920,260
Construction in Progress	888,430	642,205	(977,988)	552,647
<b><i>Total Capital Assets not being Depreciated</i></b>	<b>1,808,690</b>	<b>642,205</b>	<b>(977,988)</b>	<b>1,472,907</b>
<b><i>Capital Assets being Depreciated:</i></b>				
Buildings and Improvements	4,400,375	0	0	4,400,375
Equipment	2,890,421	71,701	0	2,962,122
Vehicles	3,816,400	334,060	0	4,150,460
Infrastructure	20,119,529	977,988	0	21,097,517
<b><i>Total Capital Assets being Depreciated</i></b>	<b>31,226,725</b>	<b>1,383,749</b>	<b>0</b>	<b>32,610,474</b>
<b><i>Less Accumulated Depreciation:</i></b>				
Buildings and Improvements	(3,094,534)	(81,282)	0	(3,175,816)
Equipment	(2,417,441)	(248,108)	0	(2,665,549)
Vehicles	(3,142,643)	(116,304)	0	(3,258,947)
Infrastructure	(4,995,204)	(738,934)	0	(5,734,138)
<b><i>Total Accumulated Depreciation</i></b>	<b>(13,649,822)</b>	<b>(1,184,628) *</b>	<b>0</b>	<b>(14,834,450)</b>
<b>Total Capital Assets being Depreciated, Net</b>	<b>17,576,903</b>	<b>199,121</b>	<b>0</b>	<b>17,776,024</b>
<b>Governmental Activities Capital Assets, Net</b>	<b>\$19,385,593</b>	<b>\$841,326</b>	<b>(\$977,988)</b>	<b>\$19,248,931</b>

\* Depreciation expense was charged to governmental functions as follows:

General Government	\$420,081
Security of Persons and Property	176,992
Leisure Time Activities	15,077
Basic Utility Services	214
Community Environment	12,956
Transportation	559,308
<b>Total Depreciation Expense</b>	<b>\$1,184,628</b>

## Note 10 – Employee Benefits

### A. Compensated Absences

Accumulated, unused vacation and sick leave may not exceed 50 or 120 days, respectively, at year end. However, all employees with sick days in excess of the 120 days may convert those days to cash on a three-to-one basis. Employees can hold up to two years worth of vacation leave.

Upon retirement, an employee can be paid for 15 percent of their accumulated hours of sick leave. Upon retirement, termination or death of the employee, vacation is paid for time the employees have earned but not used.

**City of East Cleveland, Ohio**  
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**B. Health Care Benefits**

Kaiser Permanente provides medical/surgical coverage to eligible City employees. Employees are able to choose from two options with differing deductibles, co-pays and service options. The cost for option one HMO is \$327.25 per month for individual coverage and \$931.03 per month for family coverage. Option two is \$405.09 per month for individual coverage and \$1,013.18 per month for family coverage. Medical Mutual provides dental and vision coverage. The cost for dental coverage is \$20.66 for individual coverage and \$58.05 for family coverage. The cost for vision is \$6.56 for individual coverage and \$16.39 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 11 – Local Government Fund Notes**

On December 28, 2005, the City, in accordance with Ohio Revised Code Section 118.17(C), issued \$2,913,600 in local government fund notes at 4.19 percent interest to eliminate deficit funds. The note proceeds were transferred to the Older American, Community Development Block Grant, and Special Purpose Grant special revenue funds and to the Sewer fund. The notes will be repaid with local government monies. A schedule of changes during 2008 follows:

	Outstanding 12/31/2007	Additions	(Reductions)	Outstanding 12/31/2008
<b>Governmental Activities</b>				
Local Government Fund Notes	\$2,232,685	\$0	(\$364,200)	\$1,868,485

Principal and interest requirements to retire the notes outstanding at December 31, 2008, are as follows:

		Governmental Activities	
		Local Government	
		Notes	
		Principal	Interest
	2009	\$364,200	\$80,115
	2010	364,200	64,855
	2011	364,200	49,595
	2012	364,200	34,335
	2013	411,685	19,074
	<b>Total</b>	<b>\$1,868,485</b>	<b>\$247,974</b>

**City of East Cleveland, Ohio**  
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**Note 12 - Long-Term Obligations**

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

Debt Issue	Original Issue	Year of Maturity
<b>Governmental Activities</b>		
OPWC Loans:		
2003 Euclid Avenue Rehabilitation	\$2,951,444	2028
2003 Coventry Road	105,946	2025
2006 Windermere/Idlewood/Knowles Road	977,988	2028
<b>Business-Type Activities</b>		
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

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

A schedule of changes in long-term obligations of the City during 2008 follows:

	Outstanding 12/31/2007	Additions	(Reductions)	Outstanding 12/31/2008	Due in One Year
<b>Governmental Activities</b>					
OPWC Loans:					
Euclid Avenue Rehabilitation	\$2,951,444	\$0	(\$147,572)	\$2,803,872	\$147,572
Coventry Road	95,352	0	(5,297)	90,055	5,297
Windemere/ Idlewood/ Knowles Road	888,429	89,559	0	977,988	48,899
Total OPWC Loans	3,935,225	89,559	(152,869)	3,871,915	201,768
Capital Leases	60,851	340,000	(41,461)	359,390	85,186
Police and Fire Pension Liability	1,506,405	0	(29,566)	1,476,839	31,013
Compensated Absences	1,864,338	123,721	(340,967)	1,647,092	351,482
Total Governmental Activities	<u>\$7,366,819</u>	<u>\$553,280</u>	<u>(\$564,863)</u>	<u>\$7,355,236</u>	<u>\$669,449</u>
<b>Business-Type Activities</b>					
OPWC Loans:					
Water Main Project Phase I	\$127,967	\$0	(\$19,687)	\$108,280	\$19,687
Water Main Project Phase II	187,638	0	(19,751)	167,887	19,662
Brunswick Road Water Main Improvement Project	13,900	0	(1,158)	12,742	1,158
Forest Hills Water Main Project	15,902	0	(1,272)	14,630	1,272
Total OPWC Loans	345,407	0	(41,868)	303,539	41,779
Compensated Absences	38,843	4,741	(3,307)	40,277	7,178
Total Business-Type Activities	<u>\$384,250</u>	<u>\$4,741</u>	<u>(\$45,175)</u>	<u>\$343,816</u>	<u>\$48,957</u>

Capital leases will be paid with various revenues from the general fund and the community development block grant special revenue fund. The police and fire pension liability will be paid from the police accrued liability and fire accrued liability funds. Compensated absences will be paid from the general, street, older Americans, community development block grant, victims of crimes act, water and sewer funds.

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*For The Year Ended December 31, 2008*

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 fund from user charges. The decrease in OPWC governmental loans includes \$5,297 in loans that matured during 2008 but were paid in 2009.

During 2008, the City repaid the OPWC loans for water lines in the water fund. The debt is payable through 2020 and the total principal remaining to be paid on the debt is \$303,539. Principal paid for the current year was \$41,868, total net revenues were (\$185,109) and total revenues were \$952,429. In 2008, the principal payments exceeded net revenues. Due to the discontinued operation of the water department, the loans will be repaid from the general fund in future years.

The City's overall legal debt margin was \$19,094,543 at December 31, 2008.

Principal and interest requirements to retire long-term obligations outstanding at December 31, 2008, are as follows:

	Governmental Activities		Business-Type Activities	
	Police and Fire Liability		OPWC Loans	
	Principal	Interest	Principal	Principal
	Principal	Interest	Principal	Principal
2009	\$31,013	\$62,583	\$201,768	\$41,779
2010	32,348	61,249	201,768	41,869
2011	33,690	59,906	201,768	41,869
2012	35,193	58,404	201,768	41,869
2013	36,648	56,949	201,768	41,869
2014-2018	208,637	259,345	1,008,841	91,122
2019-2023	257,588	210,395	1,008,841	3,162
2024-2028	318,038	149,944	845,393	0
2029-2033	392,666	75,316	0	0
2034-2035	131,018	5,523	0	0
<b>Total</b>	<b>\$1,476,839</b>	<b>\$999,614</b>	<b>\$3,871,915</b>	<b>\$303,539</b>

**Note 13 - Defined Benefit Pension Plans**

**A. Ohio Public Employees Retirement System**

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

**City of East Cleveland, Ohio**  
*Notes to the Basic Financial Statements*  
*For The Year Ended December 31, 2008*

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

Funding Policy – The Ohio Revised Code provides statutory authority for member and employer contributions. For the year ended December 31, 2008, members in State and local classifications contributed 10.0 percent of covered payroll and public safety and law enforcement members contributed 10.1 percent.

The City's contribution rate for 2008 was 14.0 percent, except for those plan members in law enforcement or public safety, for whom the City's contribution was 17.4 percent of covered payroll. The Ohio Revised Code provides statutory authority for member and employer contributions.

The City's required contributions for pension obligations to the traditional and combined plans for the years ended December 31, 2008, 2007, and 2006 were \$334,445, \$276,192, and \$347,480, respectively; 97.89 percent has been contributed for 2008 and 100 percent for 2007 and 2006. Contributions to the member-directed plan for 2008 were \$7,044 made by the City and \$5,031 made by plan members.

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

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

Funding Policy – Plan members are required to contribute 10.0 percent of their annual covered salary to fund pension obligations. The City's contribution was 19.5 percent for police officers and 24.0 percent for firefighters. Contribution rates are established by State statute. For 2008, a portion of the City's contributions equal to 6.75 percent of covered payroll was allocated to fund the post-employment health care plan. The City's contributions to OP&F for police and firefighters were \$280,451 and \$434,969 for the year ended December 31, 2008, \$233,520 and \$248,485 for the year ended December 31, 2007 and \$217,386 and \$242,165 for the year ended December 31, 2006. 43.08 percent for police and 49.66 percent for firefighters has been contributed for 2008. The full amount has been contributed for 2007 and 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, 2008, the unfunded liability of the City was \$1,476,839 payable in semi-annual payments through year 2035. This is an accounting liability of the City which will not vary.

***C. Social Security***

Effective July 1, 1991, all employees not otherwise covered by the Ohio Public Employees Retirement System or Ohio Police and Fire Pension Fund are covered by Social Security. As of December 31, 2008, one member of Council is covered by Social Security. The City's liability is 6.2 percent of wages paid.

**City of East Cleveland, Ohio**  
*Notes to the Basic Financial Statements*  
*For The Year Ended December 31, 2008*

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**Note 14 – Postemployment Benefits**

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

Plan Description – OPERS maintains a cost-sharing multiple-employer defined benefit post-employment health care plan for qualifying members of both the traditional and combined pension plans. Members of the member-directed plan do not qualify for ancillary benefits, including post-employment health care. The plan includes a medical plan, a prescription drug program and Medicare Part B premium reimbursement.

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

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

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

Employer contribution rates are expressed as a percentage of the covered payroll of active members. In 2008, state and local employers contributed at a rate of 14.0 percent of covered payroll (17.40 percent for public safety and law enforcement). Each year, the OPERS Retirement Board determines the portion of the employer contribution rate that will be set aside for funding post-employment health care benefits. For 2008, the amount of the employer contributions which was allocated to fund post-employment health care was 7.0 percent of covered payroll.

The OPERS Retirement Board is also authorized to establish rules for the payment of a portion of the health care benefits by the retiree or their surviving beneficiaries. Payment amounts vary depending on the number of covered dependents and the coverage selected.

The City's contributions allocated to fund post-employment health care benefits for the years ended December 31, 2008, 2007, and 2006 were \$334,445, \$211,102, and \$169,963 respectively; 97.89 percent has been contributed for 2008 and 100 percent for 2007 and 2006.

The Health Care Preservation Plan (HCPP) adopted by the OPERS Retirement Board on September 9, 2004, was effective January 1, 2007. Member and employer contribution rates increased as of January 1, 2006, January 1, 2007, and January 1, 2008, which allowed additional funds to be allocated to the health care plan.

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

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

**City of East Cleveland, Ohio**  
*Notes to the Basic Financial Statements*  
*For The Year Ended December 31, 2008*

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OP&F provides access to post-retirement health care coverage for any person who receives or is eligible to receive a monthly service, disability, or survivor benefit check or is a spouse or eligible dependent child of such person.

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

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

Funding Policy – OP&F’s post-employment health care plan was established and is administered as an Internal Revenue Code 401(h) account within the defined benefit plan, under the authority granted by the Ohio Revised Code to the OP&F Board of Trustees. The Ohio Revised Code sets the contribution rates for participating employers and for plan members to the OP&F. Participating employers are required to contribute to the pension plan at rates expressed as percentages of the payroll of active pension plan members, currently, 19.50 percent and 24.0 percent of covered payroll for police and fire employers, respectively.

The Board of Trustees is authorized to allocate a portion of the total employer contributions made to the pension plan to the 401(h) account as the employer contribution for retiree health care benefits. For the year ended December 31, 2008, the employer contribution allocated to the health care plan was 6.75 percent of covered payroll. The amount of employer contributions allocated to the health care plan each year is subject to the Trustees’ primary responsibility to ensure that pension benefits are adequately funded and is limited by the provisions of Section 401(h).

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

The City’s contributions to OP&F which were allocated to fund post-employment health care benefits for police and firefighters were \$148,474 and \$170,205 for the year ended December 31, 2008, \$233,520 and \$248,485 for the year ended December 31, 2007, \$217,386 and \$242,165 for the year ended December 31, 2006. The full amount has been contributed for 2007 and 2006. 43.08 percent has been contributed for police and 49.66 percent has been contributed for firefighters for 2008.

## **Note 15 - 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, 2008.



**City of East Cleveland, Ohio**  
*Notes to the Basic Financial Statements*  
*For The Year Ended December 31, 2008*

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***B. Litigation***

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

**Note 16 – Risk Management**

The City of East Cleveland is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; injuries to employees natural disasters. During 2008, the City contracted with Scottsdale Indemnity Company for blanket building and business personal property general liability with \$18,460,567 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, 2008; however, neither was settled by year end, so there is no change in the claims liability amount for 2008.

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

**Note 17 – Operating Lease**

The City of East Cleveland has entered into two operating leases. The first one is with City Management Group, Limited, for the purpose of leasing 3,300 square feet of a building in the City to house the City Water Department. This is a cancelable lease that is renewed annually. The City pays \$2,150 per month. For 2008, the City paid rental costs of \$24,800. The City must provide the lessor written notice at least 90 days prior to termination of the lease. The second one is with Brandon King/King Management Group (KMG), Limited, for the purpose of leasing 1,500 square feet of a building in the City to house the Domestic Violence Department. This is a cancelable lease that is renewed annually. The City pays \$2,795 per quarter. For 2008, the City paid rental costs of \$11,181. The City must provide the lessor written notice at least 90 days prior to termination of the lease.

**City of East Cleveland, Ohio**  
*Notes to the Basic Financial Statements*  
*For The Year Ended December 31, 2008*

**Note 18 – Interfund Transfers and Balances**

**A. Interfund Transfers**

Transfers In	Transfers Out General Fund
Other Governmental Funds:	
Domestic Violence	\$51,172
VOCA	40,457
Older Americans	80,000
Community Development	173,502
Total Other Governmental Funds	345,131
Enterprise Fund:	
Sewer	1,100,000
Total	\$1,445,131

The transfers from the general fund were to move unrestricted general fund revenues to special revenue funds and the sewer enterprise fund.

**B. Interfund Balances**

Interfund balances at December 31, 2008 consisted of the following:

Interfund Payable	Interfund Receivable General Fund
Nonmajor Funds:	
Older Americans	\$319,649
Domestic Violence	19,450
VOCA	9,503
Community Cops	5,333
Total Nonmajor Funds	353,935
Enterprise Funds:	
Water	160,533
Sewer	580,640
Total Enterprise	741,173
Grand Total	\$1,095,108

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

**City of East Cleveland, Ohio**  
*Notes to the Basic Financial Statements*  
*For The Year Ended December 31, 2008*

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**Note 19 – Discontinued Operations**

On January 1, 2008 the City of East Cleveland turned over water billing collections to the City of Cleveland. The City went from a Master Meter Community to a Direct Service Community. In the past the City bought water in bulk from the City of Cleveland and resold it to various customers within the City. The City billed and collected payments from those customers. Under the new agreement, the City of Cleveland will provide the water directly to the customers. They will bill and collect the payments. According to the agreement, the City of East Cleveland turned over all infrastructure related to the water lines. The City of Cleveland gave the City nothing in return for those lines. The City of Cleveland will be responsible for all maintenance and upkeep of the lines.

**Note 20 – Financial Distress**

As of December 31, 2008, the City has a General fund deficit of (\$734,420) and the business-type funds had an aggregate deficit of (\$157,255).

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.

**Note 21 – Subsequent Event**

In late 2006, the City contracted with Nestor Traffic System, Incorporated to begin issuing speeding tickets throughout the City, based on information from mobile camera systems placed throughout the City. During 2007, revenue from this source was high. As time went on, the number of tickets issued decreased due to people knowing where the cameras were and less people driving due to other economic conditions. The City also noticed a large decrease in the number of people actually paying their tickets. In early 2009, the City started sending out notices in an attempt to collect on the delinquent tickets. Approximately 60,000 letters will be mailed and if each letter only brings in the amount of one ticket, which is \$95, then the City can expect to bring in almost \$6,000,000 in revenue.

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**CITY OF EAST CLEVELAND  
CUYAHOGA COUNTY**

**FEDERAL AWARDS EXPENDITURE SCHEDULE  
FOR THE YEAR ENDED DECEMBER 31, 2008**

FEDERAL GRANTOR <i>Pass Through Grantor</i> Program Title	Federal CFDA Number	Expenditures
<b>U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES</b>		
<i>Passed Through Western Reserve Area on Aging</i>		
Older Americans Title III, Part B-Grants for Supportive Services and Senior Centers	93.044	\$ 24,692
Older Americans Title III, Part C-Nutrition Services	93.045	34,025
<b>Total U.S. Department of Health and Human Services</b>		<b>58,717</b>
<b>U.S. DEPARTMENT OF HOMELAND SECURITY</b>		
<i>Passed Through Ohio Department of Public Safety</i>		
Assistance to Firefighters Grant	97.044	3,721
<b>U.S. DEPARTMENT OF JUSTICE</b>		
<i>Passed Through Office of the Ohio Attorney General</i>		
Victims of Crime Act	16.575	76,650
<b>U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT</b>		
<b>Direct Programs:</b>		
Community Development Block Grant, Entitlement Program	14.218	1,270,068
Special Purpose Grant 33	14.251	2,250
Special Purpose Grant 507	14.251	1,126
Home Investment Partnership Program	14.239	165,099
<b>Total U.S. Department of Housing and Urban Development</b>		<b>1,438,543</b>
<b>TOTAL FEDERAL AWARDS EXPENDITURES</b>		<b>\$ 1,577,631</b>

*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, 2008**

**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, 2008 and have issued our report thereon dated December 23, 2011, wherein we reported the City restated the, January 1, 2008 governmental activities net assets and fund balances and the business-type activities net assets and fund balances and also commented on the City's accumulated unpaid bills which if processed would result in a negative fund balance. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the Comptroller General of the United States' *Government Auditing Standards*.

### Internal Control Over Financial Reporting

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

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. Therefore, we cannot assure that we have identified all deficiencies, significant deficiencies or material weaknesses. However, as described in the accompanying schedule of findings 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 2008-01 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 2008-02 to 2008-09.

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 ITS MAJOR FEDERAL PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

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

To the Members of City Council:

### Compliance

We have audited the compliance of the City of East Cleveland, Cuyahoga County, Ohio, (the 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 its major federal program for the year ended December 31, 2008. The summary of auditor's results section of the accompanying schedule of findings identifies the District's major federal program. 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 its major federal program for the year ended December 31, 2008.

### **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 intended this report 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, 2008

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

**CITY OF EAST CLEVELAND  
 CUYAHOGA COUNTY  
 SCHEDULE OF FINDINGS  
 OMB CIRCULAR A - §133 - §505  
 FOR THE YEAR ENDED DECEMBER 31, 2008  
 (Continued)**

<b>2. FINDINGS RELATED TO THE FINANCIAL STATEMENTS        REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS</b>
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<b>Finding Number</b>	<b>2008-01</b>
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**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 2002 the City hired a firm to conduct an appraisal of the City's capital assets, including infrastructure, in order to provide financial information for the implementation of GASB 34. Since then, the City has been utilizing a software package to track capital asset activity. The activity for additions was based on transactions recorded in the City's general ledger. However, transactions made on behalf of the City which were not reported in the general ledger were not included when updating the capital assets.

From 2002 to 2008 the City received various grants from the Ohio Public Works Commission (OPWC) for road, sewer and water projects. A portion of the grant funds awarded was used to pay vendors directly. Since these funds were paid directly to the vendors they were not recorded in the City's general ledger and were not recorded as additions in the capital asset records.

In 2008, the City reported its financial statements in conformity with accounting principles generally accepted in the United States of America and restated the beginning balances for the governmental and business type activities. However, OPWC grant funds paid directly to vendors from 2002 to 2007 were not reported in the restatement and funds received during 2008 were not included in the financial statements and notes. As a result, the following adjustments were made.

For the restatement of governmental activities:

Capital assets, net of accumulated depreciation, increased from \$14,455,388 to \$19,385,593, an increase of \$4,930,205. This adjustment increased total net assets from \$16,677,879 to \$21,608,084.

Construction in progress increased from zero to \$888,430.

Infrastructure increased from \$15,391,074 to \$20,119,529, an increase of \$4,728,455.

Accumulated depreciation on infrastructure increased from \$4,308,524 to \$4,995,204, an increase of \$686,680.

During 2008, the City failed to record OPWC grant funds paid directly to vendors for street projects as intergovernmental revenues and capital outlay expenditures in the amount of \$232,182 to the Street Resurfacing Fund. .

Additions to construction in progress increased from \$410,023 to \$642,205, an increase of \$232,182.

Deductions to construction in progress increased from zero to \$977,988 and additions to infrastructure increase from zero to \$977,988.

Depreciation expense increased from \$304,325 to \$559,308, an increase of \$254,983.

Total accumulated depreciation for infrastructure increased from \$497,621 to \$738,934, an increase of \$241,313.

**CITY OF EAST CLEVELAND  
 CUYAHOGA COUNTY  
 SCHEDULE OF FINDINGS  
 OMB CIRCULAR A - §133 - §505  
 FOR THE YEAR ENDED DECEMBER 31, 2008  
 (Continued)**

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

<b>Finding Number</b>	<b>2008-01</b>
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**(Continued)**

For the restatement of business-type activities:

Water Fund capital assets, net of accumulated depreciation, increased from \$8,081,245 to \$8,479,913, an increase of \$398,668. This adjustment increased the total Water Fund net assets from \$8,092,579 to \$8,491,247.

Water Fund infrastructure increased from \$10,992,709 to \$11,393,094, an increase of \$400,385.

Accumulated depreciation on Water Fund infrastructure increased from \$3,169,290 to \$3,171,007, an increase of \$1,717.

During 2008, the City failed to record OPWC grant funds paid directly to vendors for sewer projects as intergovernmental revenues and capital outlay expenditures in the amount \$177,841. The City also failed to record this amount as an increase to Sewer Fund capital asset additions. This adjustment increased Sewer Fund additions from \$327,846 to \$505,687.

Total accumulated depreciation increased from \$306,615 to \$315,726, an increase of \$9,111.

Total deductions for infrastructure increased from \$11,112,105 to \$11,690,331, an increase of \$578,226.

Total deductions for accumulated depreciation on infrastructure increased from \$3,406,654 to \$3,417,482, an increase of \$10,828.

Depreciation expense increased from \$54,993 to \$64,104, an increase of \$9,111. Of this amount, \$7,443 was reported in the Water Fund and \$1,667 in the Sewer Fund.

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

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

**Official's Response**

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

**CITY OF EAST CLEVELAND  
 CUYAHOGA COUNTY  
 SCHEDULE OF FINDINGS  
 OMB CIRCULAR A - §133 - §505  
 FOR THE YEAR ENDED DECEMBER 31, 2008  
 (Continued)**

<b>2. FINDINGS RELATED TO THE FINANCIAL STATEMENTS        REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS</b>
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<b>Finding Number</b>	<b>2008-02</b>
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**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 an instance 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 employee being compensated in excess of the amount authorized by Council. Council was aware this employee was making more than was authorized and when Council subsequently revised the salary schedule the exception noted was 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.

<b>Finding Number</b>	<b>2008-03</b>
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**Material Noncompliance Finding – Appropriations Exceeded Total Estimated Resources**

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

The following funds had total original appropriations in excess of estimated resources plus carryover balances:

<u>Fund</u>	<u>Original Estimated Revenues Plus Carryover Balances</u>	<u>Original Appropriation</u>	<u>Excess</u>
Governmental Funds:			
General Fund	\$18,846,182	\$19,636,798	(\$790,616)
Special Revenue Funds:			
Older Americans	83,548	289,422	(205,874)
Home Program	2,387,580	3,043,475	(655,895)
Domestic Violence	(3,752)	40,421	(44,173)
Victims of Crime	60,679	66,524	(5,845)
Community Cops	(5,333)	0	(5,333)
Enterprise Fund:			
Water	1,089,163	2,157,802	(1,068,639)

The following funds had total final appropriations in excess of estimated resources plus carryover balances:

**CITY OF EAST CLEVELAND  
 CUYAHOGA COUNTY  
 SCHEDULE OF FINDINGS  
 OMB CIRCULAR A - §133 - §505  
 FOR THE YEAR ENDED DECEMBER 31, 2008  
 (Continued)**

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

<b>Finding Number</b>	<b>2008-03</b>
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(Continued)

<u>Fund</u>	<u>Final Estimated Revenues Plus Carryover Balances</u>	<u>Final Appropriation</u>	<u>Excess</u>
Governmental Funds:			
Special Revenue Funds:			
Older Americans	\$75,823	\$289,422	(\$213,599)
Emergency Medical Services	472,745	484,503	(11,758)
Special Purpose Grant	2,250	99,585	(97,335)
Home Program	1,401,101	3,043,475	(1,642,374)
Community Cops	(5,333)	0	(5,333)
Enterprise Fund:			
Water	641,963	2,157,802	(1,515,839)

These weaknesses 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.

<b>Finding Number</b>	<b>2008-04</b>
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**Material Noncompliance Finding – Negative Cash Fund Balances**

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

As of December 31, 2008, the following funds had negative cash fund balances:

<u>Fund</u>	<u>Amount</u>
Governmental Funds:	
Older Americans	(\$319,649)
Domestic Violence	(19,450)
Victims of Crimes Act	(9,503)
Community Cops	(5,333)
Enterprise Funds:	
Water	(160,533)
Sewer	(580,640)

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, 2008  
 (Continued)**

<b>2. FINDINGS RELATED TO THE FINANCIAL STATEMENTS    REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS</b>
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<b>Finding Number</b>	<b>2008-05</b>
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**Material Noncompliance Finding – Expenditures Plus Encumbrances in Excess of Appropriations**

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

As of December 31, 2008, the following funds had expenditures plus encumbrances in excess of appropriations:

Fund/Function	Appropriations	Expenditure Plus Encumbrances	Excess
General Fund:			
General Government			
Mayor			
Personal Services	\$164,553	\$182,423	\$17,870
Materials and Supplies	9,453	13,146	3,693
Capital Outlay	2,028	2,244	216
Finance			
Personal Services	319,604	379,954	60,350
Materials and Supplies	10,464	17,687	7,223
Other	2,089	2,782	693
Law Director			
Other	0	244	244
Courts			
Other	0	1,547	1,547
Civil Service			
Personal Services	10,110	15,648	5,538
Tax Department			
Contractual Services	264,947	388,052	123,105
Other	0	1,921	1,921
Capital Outlay	0	15	15
Engineering and Building			
Contractual Services	32,148	35,789	3,641
Central Services			
Materials and Supplies	4,000	19,345	15,345
Contractual Services	2,280,150	2,817,007	536,857
Other	87,000	246,009	159,009



**CITY OF EAST CLEVELAND  
 CUYAHOGA COUNTY  
 SCHEDULE OF FINDINGS  
 OMB CIRCULAR A - §133 - §505  
 FOR THE YEAR ENDED DECEMBER 31, 2008  
 (Continued)**

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

<b>Finding Number</b>	<b>2008-05</b>
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(Continued)

<u>Fund/Function</u>	<u>Appropriations</u>	<u>Expenditure Plus Encumbrances</u>	<u>Excess</u>
Land and Buildings			
Personal Services	0	89,569	89,569
EDP – Vital Statistics			
Personal Services	108,254	122,589	14,335
Contractual Services	28,951	35,871	6,920
Other	0	1,540	1,540
Purchasing			
Personal Services	59,485	61,161	1,676
Security of Persons and Property			
Police Department			
Personal Services	4,080,510	4,987,556	907,046
Materials and Supplies	127,800	192,782	64,982
Capital Outlay	3,851	3,974	123
Fire Department			
Personal Services	4,079,158	4,220,062	140,904
Transportation			
Service Department			
Contractual Services	19,397	196,922	177,525
Community Environment			
Forestry			
Personal Services	0	56,067	56,067
Basic Utility Services			
Street Lighting			
Other	0	3,168	3,168
Refuse Collection			
Personal Services	0	2,659	2,659
Snow Removal			
Personal Services	0	24,935	24,935
Special Revenue Funds:			
Street			
Transportation			
Personal Services	305,794	363,215	57,421
Materials and Supplies	237,972	287,416	49,444
Other	1,000	18,774	17,774
Capital Outlay	10,500	18,022	7,522
Older Americans			
Community Environment			
Personal Services	237,600	299,617	62,017
Contractual Services	33,700	49,834	16,134
Other	0	1,468	1,468

**CITY OF EAST CLEVELAND  
 CUYAHOGA COUNTY  
 SCHEDULE OF FINDINGS  
 OMB CIRCULAR A - §133 - §505  
 FOR THE YEAR ENDED DECEMBER 31, 2008  
 (Continued)**

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

<b>Finding Number</b>	<b>2008-05</b>
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(Continued)

<u>Fund/Function</u>	<u>Appropriations</u>	<u>Expenditure Plus Encumbrances</u>	<u>Excess</u>
Community Environment			
Personal Services	43,000	44,996	1,996
Emergency Medical Services			
Security of Persons and Property			
Capital Outlay	17,910	24,442	6,532
FEMA Grant			
Security of Persons and Property			
Contractual Services	28,206	28,616	410
Capital Outlay	5,213	7,193	1,980
Home Program			
Community Environment			
Materials and Supplies	15,706	17,764	2,058
Domestic Violence			
Security of Persons and Property			
Contractual Services	8,421	39,082	30,661
Other	0	4,389	4,389
Computer Legalize Fees			
General Government			
Contractual Services	0	6,610	6,610
Victims of Crime Act			
Security of Persons and Property			
Contractual Services	14,032	29,932	15,900
Courts Community Service			
Security of Persons and Property			
Contractual Services	0	325	325
Engineering and Building Department			
General Government			
Contractual Services	0	146	146
Capital Projects Funds:			
Street Resurfacing			
Capital Outlay	0	410,023	410,023
Permanent Improvement			
Capital Outlay	109,028	161,009	51,981
Enterprise Funds:			
Water Fund			
Other	52,232	52,303	71
Sewer Fund			
Personal Services	361,081	449,466	88,385

**CITY OF EAST CLEVELAND  
 CUYAHOGA COUNTY  
 SCHEDULE OF FINDINGS  
 OMB CIRCULAR A - §133 - §505  
 FOR THE YEAR ENDED DECEMBER 31, 2008  
 (Continued)**

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

<b>Finding Number</b>	<b>2008-05</b>
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(Continued)

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

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

**Official's Response**

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

<b>Finding Number</b>	<b>2008-06</b>
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**Material Noncompliance Finding – Appropriations Exceeded Actual Receipts Plus Unencumbered Cash**

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

At December 31, 2008, the following funds had appropriations which exceeded actual receipts plus unencumbered cash:

<u>Fund</u>	Actual Receipts Plus Unencumbered Cash	Final Appropriations	<u>Variance</u>
CDBG	\$1,086,835	\$2,269,603	(\$1,182,768)
Special Purpose Grant	(170,088)	158,841	(328,929)
Home Program Fund	493,584	1,328,449	(834,865)
Street Resurfacing	1,087,534	1,100,000	(12,466)
Water	3,726,439	4,483,048	(756,699)
Sewer	3,650,129	4,930,748	(1,280,619)

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, 2008  
 (Continued)**

<b>2. FINDINGS RELATED TO THE FINANCIAL STATEMENTS        REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS</b>
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<b>Finding Number</b>	<b>2008-07</b>
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**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 received were restricted to be used 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.

<b>Finding Number</b>	<b>2008-08</b>
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**Material Noncompliance Finding – Proper Certification**

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

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

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

**CITY OF EAST CLEVELAND  
 CUYAHOGA COUNTY  
 SCHEDULE OF FINDINGS  
 OMB CIRCULAR A - §133 - §505  
 FOR THE YEAR ENDED DECEMBER 31, 2008  
 (Continued)**

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

<b>Finding Number</b>	<b>2008-08</b>
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(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 61 transactions, we noted 13 instances (21%) 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, 2008  
 (Continued)**

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

<b>Finding Number</b>	<b>2008-09</b>
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**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, 2007 and 2008. 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
2007	161,251	117,829	279,080
2008	159,984	123,537	283,521

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

**CITY OF EAST CLEVELAND  
CUYAHOGA COUNTY  
SCHEDULE OF PRIOR AUDIT FINDINGS AND QUESTIONED COSTS  
FOR THE YEAR ENDED DECEMBER 31, 2008**

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; <b>Explain</b>
2007-01	The City failed to record Ohio Public Works Commission (OPWC) grant funds paid directly to vendors for sewer and street projects as intergovernmental revenues and capital outlay expenditures in the amount of \$232,586 to the Improvement Fund	No	Repeated in finding 2008-01.
2007-02	During a test of ten employee salaries, five instances were noted in which the employee was paid in excess of the amount authorized by Council. However, the salary paid was authorized by the Mayor and Director of Human Resources. Council was aware these employees were making more than was authorized and when Council subsequently revised the salary schedule the exceptions noted were within the range established.	No	Repeated in finding 2008-02.
2007-03	Several funds had negative cash fund balances, contrary to Ohio Rev. Code § 5705.10(H).	No	Repeated in finding 2008-04.
2007-04	Several funds had total final appropriations in excess of estimated resources plus carryover balances, contrary to Ohio Rev. Code § 5705.39.	No	Repeated in finding 2008-03.
2007-05	Several funds had expenditures plus encumbrances in excess of appropriations, contrary to Ohio Rev. Code § 5705.41(B).	No	Repeated in finding 2008-05.
2007-06	Several funds had appropriations which exceeded actual receipts plus unencumbered cash, contrary to Ohio Rev. Code § 5705.36(A)(2).	No	Repeated in finding 2008-06.
2007-07	During a test of 69 transactions, noted 12 instances (17%) were noted in which the transaction was not certified by the fiscal officer at the time the commitment, contrary to Ohio Rev. Code § 5705.41(D)(1).	No	Repeated in finding 2008-08.
2007-08	Separate funds were not established for the two federal programs, CFDA # 93.044 and #93.045.	No	Repeated in finding 2008-07.
2007-09	The City did not make all of the required payments to the Ohio Police and Fire Pension Fund during 2006 and 2007, contrary to Ohio Rev. Code § 742.35.	No	Repeated in finding 2008-09.

**CITY OF EAST CLEVELAND  
CUYAHOGA COUNTY**

**SCHEDULE OF PRIOR AUDIT FINDINGS AND QUESTIONED COSTS  
FOR THE YEAR ENDED DECEMBER 31, 2008  
(CONTINUED)**

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; <b><i>Explain</i></b>
2007-010	During a review of the Economic Development Initiative – Special Project, Neighborhood Initiative and Miscellaneous Grants, CFDA# 14.251, we noted the grant funds were used for streets, demolitions and lead abatement projects instead of the purposes required by the grant agreement. None of these purposes are consistent with the stated purpose of the grant. The City was unable to provide documentation to support an approved change in the programmatic purpose of the grant. As a result, a questioned costs for \$611,159 was issued.	No	Repeated in 2008 management letter as amount was only \$3,376.
2007-011	During a review of CDBG draw downs, noted a receipt for \$181,893 was erroneously posted to the HOME federal program by the Finance Department and was not detected by the Department of Community Development.	Yes	
2007-012	During a review of HOME draw downs, noted a receipt for \$30,000 was erroneously posted to the Community Development Block Grant (CDBG), by the Finance Department and was not detected by the Department of Community Development.	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**