

City of East Cleveland, Ohio

Single Audit Reports

December 31, 2011



Dave Yost • Auditor of State

Mayor and Members of Council
City of East Cleveland
14340 Euclid Avenue
East Cleveland, Ohio 44112

We have reviewed the *Independent Auditor's Report* of the City of East Cleveland, Cuyahoga County, prepared by Ciuni & Panichi, Inc., for the audit period January 1, 2011 through December 31, 2011. Based upon this review, we have accepted these reports in lieu of the audit required by Section 117.11, Revised Code. The Auditor of State did not audit the accompanying financial statements and, accordingly, we are unable to express, and do not express an opinion on them.

Our review was made in reference to the applicable sections of legislative criteria, as reflected by the Ohio Constitution, and the Revised Code, policies, procedures and guidelines of the Auditor of State, regulations and grant requirements. The City of East Cleveland is responsible for compliance with these laws and regulations.

A handwritten signature in black ink that reads "Dave Yost".

Dave Yost
Auditor of State

December 12, 2013

This page intentionally left blank.

City of East Cleveland, Ohio

For The Year Ended December 31, 2011

Table of Contents	Page
Independent Auditor's Report	1
Management Discussion and Analysis	4
Basic Financial Statements:	
Government-Wide Financial Statements:	
Statement of Net Assets	13
Statement of Activities	14
Fund Financial Statements:	
Balance Sheet – Governmental Funds	16
Reconciliation of total Governmental Fund Balances to Net Position of Governmental Activities	17
Statement of Revenues, Expenditures and Changes in Fund Balances of Governmental Funds	18
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances of Governmental Funds to the Statement of Activities	19
Statement of Revenues, Expenditures and Changes in Fund Balances - Budget (Non-GAAP Basis) and Actual	
General Fund	20
Emergency Medical Services Fund	21
Community Development Fund	22
Statement of Fund Net Assets – Enterprise Funds	23
Statement of Revenues, Expenses and Changes in Fund Net Assets - Enterprise Funds	24
Statement of Cash Flows – Enterprise Funds	25
Statement of Fiduciary Assets and Liabilities – Agency Funds	27
Notes to Basic Financial Statements	28
Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	57

City of East Cleveland, Ohio

For The Year Ended December 31, 2011

Table of Contents	Page
Independent Auditor’s Report on Compliance with Requirements That Could Have a Direct and Material Effect on Each Major Program and on Internal Control over Compliance in Accordance with OMB Circular A-133	59
Schedule of Expenditures of Federal Awards	61
Notes to the Schedule of Expenditures of Federal Awards	62
Schedule of Findings OMB Circular A-133 Section .505	63
Schedule of Prior Audit Findings	73
Response to Findings Associated With Audit Conducted In Accordance With <i>Government Auditing Standards</i>	78

Independent Auditor's Report

Honorable Mayor and
Members of the City Council
East Cleveland, Ohio

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of East Cleveland, Ohio (the "City"), as of and for the year ended December 31, 2011, 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 *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City, as of December 31, 2011, and the respective changes in financial position, and, where applicable, cash flows thereof and the respective budgetary comparison for the General Fund, Emergency Services Fund, and the Community Development Fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As described in Note 3, during the year ended December 31, 2011, the City implemented Governmental Accounting Standards Board ("GASB") Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions* and GASB Statement No. 59, *Financial Instruments Omnibus*.

In accordance with *Government Auditing Standards*, we have also issued our report dated September 30, 2013, on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

This Page Intentionally Left Blank

Honorable Mayor and
Members of the City Council
East Cleveland, Ohio

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 4 through 11 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting 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 assurance.

Cini & Panichi, Inc.

Cleveland, Ohio
September 30, 2013

City of East Cleveland, Ohio
Management's Discussion and Analysis
For the Year Ended December 31, 2011
Unaudited

The discussion and analysis of the City of East Cleveland's financial performance provides an overview of the City's financial activities for the year ended December 31, 2011. 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 2011 are as follows:

- General revenues, mainly municipal income taxes, made up a majority of the total revenues for governmental activities in 2011.
- The City is continuing to pay down the majority of its outstanding debt, which consists of capital leases, OPWC loans, and notes payable.
- 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 2011 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.

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.

City of East Cleveland, Ohio
Management's Discussion and Analysis
For the Year Ended December 31, 2011
Unaudited

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, emergency medical services, and community development.

Governmental funds *Governmental funds* are used to account for essentially the same functions reported as *governmental activities* in the government-wide financial statements. However, unlike the government-wide financial statements, governmental funds financial statements focus on *near-term inflows and outflows of expendable resources*, as well as on balances of expendable resources available at the end of the year. Such information may be useful in evaluating a government's near term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures and changes in fund balances provide a reconciliation to facilitate this comparison between *governmental funds and governmental activities*.

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.

City of East Cleveland, Ohio
Management's Discussion and Analysis
For the Year Ended December 31, 2011
Unaudited

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 2011 as they compare to 2010.

Table 1
Net Assets

	Governmental Activities		Business-Type Activities		Totals	
	2011	2010	2011	2010	2011	2010
Assets						
Current and Other Assets	\$21,776,368	\$15,956,629	(\$867,966)	(\$926,373)	\$20,908,402	\$15,030,256
Capital Assets, Net	17,585,343	18,174,431	579,412	588,951	18,164,755	18,763,382
<i>Total Assets (Deficit)</i>	<u>39,361,711</u>	<u>34,131,060</u>	<u>(288,554)</u>	<u>(337,422)</u>	<u>39,073,157</u>	<u>33,793,638</u>
Liabilities						
Current Liabilities	5,466,882	5,544,235	44,680	44,344	5,511,562	5,588,579
Long-Term Liabilities:						
Due Within One Year	352,977	410,706	47,860	52,104	400,837	462,810
Due in More than One Year	5,823,355	5,835,587	231,657	306,987	6,055,012	6,142,574
<i>Total Liabilities</i>	<u>11,643,214</u>	<u>11,790,528</u>	<u>324,197</u>	<u>403,435</u>	<u>11,967,411</u>	<u>12,193,963</u>
Net Assets						
Invested in Capital Assets, Net of Related Debt	13,682,562	14,563,632	579,412	588,951	14,261,974	15,152,583
Restricted for:						
Capital Projects	1,256,331	1,604,746	0	0	1,256,331	1,604,746
Other Purposes	6,032,884	4,164,373	0	0	6,032,884	4,164,373
Unrestricted (Deficit)	6,746,720	2,007,781	(1,192,163)	(1,329,808)	5,554,557	677,973
<i>Total Net Assets (Deficit)</i>	<u>\$27,718,497</u>	<u>\$22,340,532</u>	<u>(\$612,751)</u>	<u>(\$740,857)</u>	<u>\$27,105,746</u>	<u>\$21,599,675</u>

The increase in governmental assets was due to an increase in accounts receivables as a result of \$4.8 million accounts receivable booked for Cleveland Clinic payments and also as a result of an increase in charges for emergency medical billing services. Business-type activities saw an increase in assets due to a decrease in interfund receivables which were needed to eliminate negative cash amounts in the water and sewer funds.

The decrease in liabilities was mainly due to decreases in notes payable, accounts payable and accrued wages and benefits.

Table 2 shows the changes in net assets for the year ended December 31, 2011 for both governmental activities and business-type activities. Revenue and expense comparisons to the year 2010 are also shown.

City of East Cleveland, Ohio
Management's Discussion and Analysis
For the Year Ended December 31, 2011
Unaudited

Table 2
Changes in Net Assets

	Governmental Activities		Business-Type Activities		Totals	
	2011	2010	2011	2010	2011	2010
Revenues:						
Program Revenues:						
Charges for Services	\$2,934,446	\$2,927,552	\$288,048	\$72,407	\$3,222,494	\$2,999,959
Operating Grants and Contributions	4,368,446	5,085,591	0	81,991	4,368,446	5,167,582
<i>Total Program Revenues</i>	<u>7,302,892</u>	<u>8,013,143</u>	<u>288,048</u>	<u>154,398</u>	<u>7,590,940</u>	<u>8,167,541</u>
General Revenues:						
Property Taxes	1,915,856	1,412,919	0	0	1,915,856	1,412,919
Municipal Income Taxes	5,527,793	6,443,702	0	0	5,527,793	6,443,702
Hotel Tax	8,536	2,572	0	0	8,536	2,572
Grants and Entitlements	4,050,903	6,239,153	0	0	4,050,903	6,239,153
Investment Earnings	907	1,696	0	6	907	1,702
Miscellaneous	991,141	840,273	0	0	991,141	840,273
<i>Total General Revenues</i>	<u>12,495,136</u>	<u>14,940,315</u>	<u>0</u>	<u>6</u>	<u>12,495,136</u>	<u>14,940,321</u>
<i>Total Revenues</i>	<u>19,798,028</u>	<u>22,953,458</u>	<u>288,048</u>	<u>154,404</u>	<u>20,086,076</u>	<u>23,107,862</u>
Program Expenses						
General Government	6,767,032	5,213,581	0	0	6,767,032	5,213,581
Security of Persons and Property	9,735,651	11,508,628	0	0	9,735,651	11,508,628
Transportation	2,064,034	1,543,725	0	0	2,064,034	1,543,725
Community Development	2,691,245	2,955,763	0	0	2,691,245	2,955,763
Leisure Time Activities	334,921	306,165	0	0	334,921	306,165
Basic Utility Services	586,548	851,064	0	0	586,548	851,064
Interest and Fiscal Charges	57,242	153,661	0	0	57,242	153,661
Water	0	0	1,227	192,013	1,227	192,013
Sewer	0	0	142,105	604,855	142,105	604,855
<i>Total Program Expenses</i>	<u>22,236,673</u>	<u>22,532,587</u>	<u>143,332</u>	<u>796,868</u>	<u>22,380,005</u>	<u>23,329,455</u>
<i>Increase (Decrease) in Net Assets before Transfers and Extraordinary Item</i>						
	(2,438,645)	420,871	144,716	(642,464)	(2,293,929)	(221,593)
Transfers	16,610	16,610	(16,610)	(16,610)	0	0
Extraordinary Item	7,800,000	0	0	0	7,800,000	0
<i>Increase (Decrease) in Net Assets</i>	<u>5,377,965</u>	<u>437,481</u>	<u>128,106</u>	<u>(659,074)</u>	<u>5,506,071</u>	<u>(221,593)</u>
<i>Net Assets (Deficit) Beginning of Year</i>	<u>22,340,532</u>	<u>21,903,051</u>	<u>(740,857)</u>	<u>(81,783)</u>	<u>21,599,675</u>	<u>21,821,268</u>
<i>Net Assets (Deficit) End of Year</i>	<u>\$27,718,497</u>	<u>\$22,340,532</u>	<u>(\$612,751)</u>	<u>(\$740,857)</u>	<u>\$27,105,746</u>	<u>\$21,599,675</u>

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, 2011. The City does not allow any credit of the City's income tax rate for taxes paid to other political subdivisions in Ohio. There were increases in property tax revenues due to receiving more delinquent tax monies in 2011 than it did in 2010.

City of East Cleveland, Ohio
Management's Discussion and Analysis
For the Year Ended December 31, 2011
Unaudited

General revenues from grants and entitlements, such as local government funds, are also revenue generators. Grants and Entitlements decreased compared to last year's levels due to less local governmental funding received in 2011.

During 2011, the City entered into a cooperation agreement with the Cleveland Clinic Foundation (the Clinic). The City agreed to cooperate with the Clinic to effect an orderly and efficient closure of Huron Hospital, assist the Clinic with the opening of Huron Community Health Center and the transition of patient care to the new facility. During 2011, the City requested and received an advance on the future payments for a total of \$3,000,000 received from the Clinic.

The operations of the City's police and fire departments account for the largest expenses of the governmental activities. The City's police department is a full-time 24-hour a day, 365-days a year department, with a full-time chief and 72 patrolmen and dispatchers. The fire department is staffed by 45 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.

The decrease in security of persons and property is due to no wage increase for employees in 2011. The City started a furlough program for a majority of City employees towards the end of 2009, and has continued this during 2011. Employees were required to take one day of unpaid leave every pay. Community development expenses decreased due to fewer projects in 2011. Transportation includes the costs of maintaining and repairing the City's streets. Maintenance of streets on a regular basis can help delay the need for major street improvement projects in the future. City management continues to diligently plan expenses, and seeks grants in order to maintain and improve City services.

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
	2011	2010	2011	2010
General Government	\$6,767,032	\$5,213,581	(\$5,955,345)	(\$4,533,696)
Security of Persons and Property	9,735,651	11,508,628	(6,032,328)	(9,531,250)
Transportation	2,064,034	1,543,725	(1,491,592)	(1,039,211)
Community Development	2,691,245	2,955,763	(576,927)	1,752,846
Leisure Time Activities	334,921	306,165	(298,683)	(270,511)
Basic Utility Services	586,548	851,064	(521,664)	(743,961)
Interest and Fiscal Charges	57,242	153,661	(57,242)	(153,661)
Total	\$22,236,673	\$22,532,587	(\$14,933,781)	(\$14,519,444)

Business-Type Activities

While the City has turned over the billing to the City of Cleveland, there are still delinquent accounts for utility services that are still being attempted to collect. Charges for services have been reduced drastically. The City pays \$26.08 per 1,000 cubic feet of water purchased to Northeast Ohio Regional Sewer District for

City of East Cleveland, Ohio
Management's Discussion and Analysis
For the Year Ended December 31, 2011
Unaudited

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. 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.

The City's Funds

A review of the City's governmental funds provides information on near-term flows and balances of expendable resources and serves as a useful measure of a government's net resources. Governmental fund information can be found on page 16 and is accounted for using the modified accrual basis of accounting.

The City's major governmental funds are the general fund, emergency medical services and community development funds. Total fund balance increased from 2010 to 2011. The City was able to decrease its expenditures compared to 2010.

Information about the proprietary funds starts on page 23. These funds are accounted for on an accrual basis.

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, actual revenues were lower than the original and final budgeted revenues. The economy continued to decline for much of 2011. The City was very aware that their revenues were not high enough to handle increased expenditures, therefore the City worked to keep actual expenditures below final budgeted expenditures.

City of East Cleveland, Ohio
Management's Discussion and Analysis
For the Year Ended December 31, 2011
Unaudited

Capital Assets and Debt Administration

Capital Assets

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

	Governmental Activities		Business-Type Activities		Totals	
	2011	2010	2011	2010	2011	2010
Land	\$920,260	\$920,260	\$0	\$0	\$920,260	\$920,260
Construction in Progress	0	959,985	0	315,123	0	1,275,108
Buildings and Improvements	1,063,699	1,116,067	0	0	1,063,699	1,116,067
Equipment	131,822	181,837	12,102	13,622	143,924	195,459
Vehicles	503,525	567,681	35,231	39,081	538,756	606,762
Infrastructure	14,966,037	14,428,601	532,079	221,125	15,498,116	14,649,726
Totals	\$17,585,343	\$18,174,431	\$579,412	\$588,951	\$18,164,755	\$18,763,382

Total capital assets for the City of East Cleveland decreased from 2010. Total governmental activities capital assets primarily decreased due to more depreciation taken in 2011 than new capital assets being acquired. See Note 10 in the financial statements for more information regarding the City's capital assets.

Debt

The outstanding debt for the City of East Cleveland as of December 31, 2011 has decreased.

Table 5
Outstanding Debt at December 31

	Governmental Activities		Business-Type Activities		Totals	
	2011	2010	2011	2010	2011	2010
Capital Leases	\$146,935	\$221,881	\$0	\$0	\$146,935	\$221,881
Police and Fire Liability	1,379,736	1,413,477	0	0	1,379,736	1,413,477
OPWC Loans	3,192,447	3,388,918	274,845	321,815	3,467,292	3,710,733
Notes Payable	775,885	1,140,085	0	0	775,885	1,140,085
Totals	\$5,495,003	\$6,164,361	\$274,845	\$321,815	\$5,769,848	\$6,486,176

The capital leases are for copiers and vehicles, and will be paid from the general, community development special revenue and permanent improvement capital project funds.

The Ohio Public Works Commission (OPWC) governmental activities loans are comprised of two 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 permanent improvement capital projects fund and the street special revenue fund.

City of East Cleveland, Ohio
Management's Discussion and Analysis
For the Year Ended December 31, 2011
Unaudited

The Ohio Public Works Commission (OPWC) business-type activities loans are comprised of five 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 2030.

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 notes will be repaid with local government monies.

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

Current Financial Issues

The City of East Cleveland continues to struggle to maintain a revenue base to deliver basic services to the citizens of East Cleveland.

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 fees 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 any one 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 Irene Crowell, Finance Director, City of East Cleveland, 14340 Euclid Avenue, East Cleveland, Ohio 44112, Telephone (216) 681-2323, e-mail icrowell@eastcleveland.org.

BASIC FINANCIAL STATEMENTS

City of East Cleveland, Ohio

Statement of Net Assets

December 31, 2011

	Governmental Activities	Business-Type Activities	Total
Assets			
Equity in Pooled Cash and Cash Equivalents	\$4,302,799	\$0	\$4,302,799
Cash and Cash Equivalents In Segregated Accounts	63,077	0	63,077
Accounts Receivable	5,473,100	0	5,473,100
Internal Balances	867,966	(867,966)	0
Intergovernmental Receivable	4,494,376	0	4,494,376
Prepaid Items	9,067	0	9,067
Materials and Supplies Inventory	11,408	0	11,408
Municipal Income Taxes Receivable	2,482,927	0	2,482,927
Property Taxes Receivable	4,071,648	0	4,071,648
Nondepreciable Capital Assets	920,260	0	920,260
Depreciable Capital Assets, Net	16,665,083	579,412	17,244,495
<i>Total Assets (Deficit)</i>	<u>39,361,711</u>	<u>(288,554)</u>	<u>39,073,157</u>
Liabilities			
Accounts Payable	239,474	466	239,940
Accrued Wages	246,804	6,031	252,835
Contracts Payable	563,399	36,203	599,602
Intergovernmental Payable	2,165,569	1,980	2,167,549
Matured Compensated Absences Payable	44,090	0	44,090
Accrued Interest Payable	86,173	0	86,173
Deferred Revenue	1,263,728	0	1,263,728
Notes Payable	775,885	0	775,885
Matured Pension Loans Payable	81,760	0	81,760
Long-Term Liabilities:			
Due Within One Year	352,977	47,860	400,837
Due In More Than One Year	5,823,355	231,657	6,055,012
<i>Total Liabilities</i>	<u>11,643,214</u>	<u>324,197</u>	<u>11,967,411</u>
Net Assets			
Invested in Capital Assets, Net of Related Debt	13,682,562	579,412	14,261,974
Restricted for:			
Capital Projects	1,256,331	0	1,256,331
Home Program	2,737,277	0	2,737,277
Emergency Medical Services	1,960,274	0	1,960,274
Street	478,204	0	478,204
Special Project Courts	579,553	0	579,553
Other Purposes	277,576	0	277,576
Unrestricted (Deficit)	6,746,720	(1,192,163)	5,554,557
<i>Total Net Assets (Deficit)</i>	<u>\$27,718,497</u>	<u>(\$612,751)</u>	<u>\$27,105,746</u>

See accompanying notes to the basic financial statements

City of East Cleveland, Ohio
Statement of Activities
For the Year Ended December 31, 2011

	Program Revenues		
	Expenses	Charges for Services and Operating Assessments	Operating Grants and Contributions
Governmental Activities:			
General Government	\$6,767,032	\$811,687	\$0
Security of Persons and Property	9,735,651	1,806,302	1,897,021
Transportation	2,064,034	154,977	417,465
Community Development	2,691,245	60,358	2,053,960
Leisure Time Activities	334,921	36,238	0
Basic Utility Services	586,548	64,884	0
Interest and Fiscal Charges	57,242	0	0
<i>Total Governmental Activities</i>	<u>22,236,673</u>	<u>2,934,446</u>	<u>4,368,446</u>
Business-Type Activities:			
Water	1,227	894	0
Sewer	142,105	287,154	0
<i>Total Business-Type Activities</i>	<u>143,332</u>	<u>288,048</u>	<u>0</u>
<i>Total</i>	<u>\$22,380,005</u>	<u>\$3,222,494</u>	<u>\$4,368,446</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

Extraordinary Item

Cleveland Clinic Settlement

Change in Net Assets

Net Assets (Deficit) Beginning of Year

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
(\$5,955,345)	\$0	(\$5,955,345)
(6,032,328)	0	(6,032,328)
(1,491,592)	0	(1,491,592)
(576,927)	0	(576,927)
(298,683)	0	(298,683)
(521,664)	0	(521,664)
(57,242)	0	(57,242)
<u>(14,933,781)</u>	<u>0</u>	<u>(14,933,781)</u>
0	(333)	(333)
0	145,049	145,049
0	144,716	144,716
<u>(14,933,781)</u>	<u>144,716</u>	<u>(14,789,065)</u>
1,821,345	0	1,821,345
72,703	0	72,703
10,904	0	10,904
10,904	0	10,904
5,527,793	0	5,527,793
8,536	0	8,536
4,050,903	0	4,050,903
907	0	907
991,141	0	991,141
12,495,136	0	12,495,136
16,610	(16,610)	0
<u>12,511,746</u>	<u>(16,610)</u>	<u>12,495,136</u>
<u>7,800,000</u>	<u>0</u>	<u>7,800,000</u>
5,377,965	128,106	5,506,071
22,340,532	(740,857)	21,599,675
<u>\$27,718,497</u>	<u>(\$612,751)</u>	<u>\$27,105,746</u>

City of East Cleveland, Ohio

Balance Sheet

Governmental Funds

December 31, 2011

	General	Emergency Medical Services	Community Development	Other Governmental Funds	Total Governmental Funds
Assets					
Equity in Pooled Cash and Cash Equivalents	\$0	\$1,250,987	\$0	\$3,051,812	\$4,302,799
Cash and Cash Equivalents In Segregated Accounts	0	0	0	63,077	63,077
Accounts Receivable	4,845,062	628,038	0	0	5,473,100
Interfund Receivable	1,616,318	85,362	0	0	1,701,680
Intergovernmental Receivable	1,266,220	0	2,828,112	400,044	4,494,376
Prepaid Items	9,067	0	0	0	9,067
Materials and Supplies Inventory	7,622	0	753	3,033	11,408
Municipal Income Taxes Receivable	2,482,927	0	0	0	2,482,927
Property Taxes Receivable	3,238,083	0	0	833,565	4,071,648
<i>Total Assets</i>	<u>\$13,465,299</u>	<u>\$1,964,387</u>	<u>\$2,828,865</u>	<u>\$4,351,531</u>	<u>\$22,610,082</u>
Liabilities					
Accounts Payable	\$201,870	\$4,113	\$11,052	\$22,439	\$239,474
Accrued Wages	227,907	0	6,195	12,702	246,804
Contracts Payable	195,462	0	367,937	0	563,399
Intergovernmental Payable	2,130,546	0	22,950	12,073	2,165,569
Accrued Interest Payable	3,127	0	0	0	3,127
Interfund Payable	0	0	23,047	810,667	833,714
Matured Compensated Absences Payable	44,090	0	0	0	44,090
Matured Pension Loans Payable	0	0	0	81,760	81,760
Notes Payable	775,885	0	0	0	775,885
Deferred Revenue	10,942,705	593,012	2,406,373	1,159,059	15,101,149
<i>Total Liabilities</i>	<u>14,521,592</u>	<u>597,125</u>	<u>2,837,554</u>	<u>2,098,700</u>	<u>20,054,971</u>
Fund Balances					
Nonspendable	16,689	0	753	3,033	20,475
Restricted	0	0	0	3,067,038	3,067,038
Committed	0	1,367,262	0	1,011	1,368,273
Assigned	106,041	0	0	0	106,041
Unassigned (Deficit)	(1,179,023)	0	(9,442)	(818,251)	(2,006,716)
<i>Total Fund Balances (Deficit)</i>	<u>(1,056,293)</u>	<u>1,367,262</u>	<u>(8,689)</u>	<u>2,252,831</u>	<u>2,555,111</u>
<i>Total Liabilities and Fund Balances</i>	<u>\$13,465,299</u>	<u>\$1,964,387</u>	<u>\$2,828,865</u>	<u>\$4,351,531</u>	<u>\$22,610,082</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, 2011*

Total Governmental Funds Balances	\$2,555,111
--	--------------------

*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.	17,585,343
---	------------

Other long-term assets are not available to pay for current period expenditures and therefore are deferred in the funds:

Delinquent Property Taxes	2,807,920
Municipal Income Taxes	2,090,564
Intergovernmental	3,545,925
Cleveland Clinic Settlement	4,800,000
Charges for Services	593,012

Total	13,837,421
-------	------------

In the statement of activities, interest is accrued on outstanding liabilities, whereas in governmental funds, an interest expenditure is reported when due.	(83,046)
--	----------

Long-term liabilities are not due and payable in the current period and therefore are not reported in the funds:

OPWC Loans	(3,192,447)
Capital Leases	(146,935)
Police and Fire Pension Liability	(1,379,736)
Compensated Absences	(1,457,214)

Total	(6,176,332)
-------	-------------

<i>Net Assets of Governmental Activities</i>	\$27,718,497
--	---------------------

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, 2011

	General	Emergency Medical Services	Community Development	Other Governmental Funds	Total Governmental Funds
Revenues					
Property Taxes	\$1,454,199	\$0	\$0	\$0	\$1,454,199
Hotel Tax	8,536	0	0	0	8,536
Municipal Income Taxes	6,678,850	0	0	0	6,678,850
Special Assessments	105	0	0	0	105
Intergovernmental	4,584,073	0	1,848,164	2,348,984	8,781,221
Fees, Licenses and Permits	390,746	0	0	101,054	491,800
Fines and Forfeitures	1,241,181	0	0	115,739	1,356,920
Rentals	0	0	0	13,581	13,581
Charges for Services	352,563	613,260	12,550	6,309	984,682
Interest	905	0	0	2	907
Other	991,141	0	0	0	991,141
<i>Total Revenues</i>	<u>15,702,299</u>	<u>613,260</u>	<u>1,860,714</u>	<u>2,585,669</u>	<u>20,761,942</u>
Expenditures					
Current:					
General Government	6,336,852	0	0	46,283	6,383,135
Security of Persons and Property	8,752,823	352,057	0	281,066	9,385,946
Transportation	1,400,965	0	0	404,243	1,805,208
Community Development	306,096	0	1,908,931	454,236	2,669,263
Leisure Time Activities	325,282	0	0	0	325,282
Basic Utility Services	586,438	0	0	0	586,438
Capital Outlay	0	0	0	199,874	199,874
Debt Service:					
Principal Retirement	10,563	0	1,312	293,283	305,158
Interest and Fiscal Charges	56,353	0	39	7,251	63,643
<i>Total Expenditures</i>	<u>17,775,372</u>	<u>352,057</u>	<u>1,910,282</u>	<u>1,686,236</u>	<u>21,723,947</u>
<i>Excess of Revenues Over (Under) Expenditures</i>	(2,073,073)	261,203	(49,568)	899,433	(962,005)
Other Financing Sources					
Transfer In	0	0	0	16,610	16,610
Extraordinary Item					
Cleveland Clinic Settlement	3,000,000	0	0	0	3,000,000
<i>Net Change in Fund Balances</i>	926,927	261,203	(49,568)	916,043	2,054,605
<i>Fund Balances (Deficit) Beginning of Year - - Restated (See Note 3)</i>	(1,983,220)	1,106,059	40,879	1,336,788	500,506
<i>Fund Balances (Deficit) End of Year</i>	<u>(\$1,056,293)</u>	<u>\$1,367,262</u>	<u>(\$8,689)</u>	<u>\$2,252,831</u>	<u>\$2,555,111</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, 2011*

Net Change in Fund Balances - Total Governmental Funds \$2,054,605

*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	113,213	
Depreciation	(702,301)	
Total		(589,088)

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

Delinquent Property Taxes	461,657	
Municipal Income Taxes	(1,151,057)	
Intergovernmental	(361,872)	
Cleveland Clinic Settlement	4,800,000	
Charges for Services	87,358	
Total		3,836,086

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. 305,158

In the statement of activities interest is accrued whereas in governmental funds, an interest expenditure is reported when due. 6,401

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. (235,197)

Change in Net Assets of Governmental Activities \$5,377,965

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, 2011

	Budgeted Amounts			Variance with Final Budget Positive (Negative)
	Original	Final	Actual	
Revenues				
Property Taxes	\$1,777,855	\$1,777,855	\$1,454,199	(\$323,656)
Hotel Tax	10,436	10,436	8,536	(1,900)
Municipal Income Taxes	6,413,755	6,413,755	4,699,992	(1,713,763)
Special Assessments	128	128	105	(23)
Intergovernmental	5,202,618	5,202,618	4,421,451	(781,167)
Fees, Licenses and Permits	441,372	441,372	361,021	(80,351)
Fines and Forfeitures	1,298,313	1,298,313	1,061,957	(236,356)
Charges for Services	448,720	448,720	367,031	(81,689)
Interest	24	24	20	(4)
Other	945,678	945,678	774,517	(171,161)
<i>Total Revenues</i>	<u>16,538,899</u>	<u>16,538,899</u>	<u>13,148,829</u>	<u>(3,390,070)</u>
Expenditures				
Current:				
General Government	5,567,743	5,567,743	3,955,466	1,612,277
Security of Persons and Property	8,842,480	8,842,480	9,459,590	(617,110)
Transportation	1,558,124	1,558,124	1,217,999	340,125
Community Development	395,433	395,433	329,748	65,685
Leisure Time Activities	749,985	749,985	337,081	412,904
Basic Utility Services	1,220,522	1,220,522	673,024	547,498
Debt Service:				
Principal Retirement	365,000	365,000	364,200	800
Interest and Fiscal Charges	50,000	50,000	49,595	405
<i>Total Expenditures</i>	<u>18,749,287</u>	<u>18,749,287</u>	<u>16,386,703</u>	<u>2,362,584</u>
<i>Excess of Revenues Over (Under) Expenditures</i>	<u>(2,210,388)</u>	<u>(2,210,388)</u>	<u>(3,237,874)</u>	<u>(1,027,486)</u>
Other Financing Sources (Uses)				
Transfers In	125,000	125,000	0	(125,000)
Transfers Out	(356,629)	(356,629)	0	356,629
<i>Total Other Financing Sources (Uses)</i>	<u>(231,629)</u>	<u>(231,629)</u>	<u>0</u>	<u>231,629</u>
Extraordinary Item				
Cleveland Clinic Settlement	3,000,000	3,000,000	3,000,000	0
<i>Net Change in Fund Balance</i>	557,983	557,983	(237,874)	(795,857)
<i>Fund Balance Beginning of Year</i>	230,838	230,838	230,838	0
Prior Year Encumbrances Appropriated	829,927	829,927	829,927	0
<i>Fund Balance End of Year</i>	<u>\$1,618,748</u>	<u>\$1,618,748</u>	<u>\$822,891</u>	<u>(\$795,857)</u>

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
Emergency Medical Services Fund
For the Year Ended December 31, 2011

	<u>Budgeted Amounts</u>		<u>Actual</u>	Variance with
	<u>Original</u>	<u>Final</u>		Final Budget Positive (Negative)
Revenues				
Charges for Services	\$320,000	\$320,000	\$543,209	\$223,209
Expenditures				
Current:				
Security of Persons and Property	<u>575,578</u>	<u>575,578</u>	<u>211,559</u>	<u>364,019</u>
<i>Net Change in Fund Balance</i>	(255,578)	(255,578)	331,650	587,228
<i>Fund Balance Beginning of Year</i>	963,096	963,096	963,096	0
Prior Year Encumbrances Appropriated	<u>6,578</u>	<u>6,578</u>	<u>6,578</u>	<u>0</u>
<i>Fund Balance End of Year</i>	<u><u>\$714,096</u></u>	<u><u>\$714,096</u></u>	<u><u>\$1,301,324</u></u>	<u><u>\$587,228</u></u>

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
Community Development Fund
For the Year Ended December 31, 2011

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues				
Intergovernmental	\$1,298,425	\$1,305,988	\$1,297,069	(\$8,919)
Charges for Services	12,563	5,000	12,550	7,550
<i>Total Revenues</i>	1,310,988	1,310,988	1,309,619	(1,369)
Expenditures				
Current:				
Community Development	4,858,738	4,858,738	3,913,053	945,685
<i>Net Change in Fund Balance</i>	(3,547,750)	(3,547,750)	(2,603,434)	944,316
<i>Fund Deficit Beginning of Year</i>	(978,198)	(978,198)	(978,198)	0
Prior Year Encumbrances Appropriated	1,027,641	1,027,641	1,027,641	0
<i>Fund Balance (Deficit) End of Year</i>	<u>(\$3,498,307)</u>	<u>(\$3,498,307)</u>	<u>(\$2,553,991)</u>	<u>\$944,316</u>

See accompanying notes to the basic financial statements

City of East Cleveland, Ohio

Statement of Fund Net Assets

Enterprise Funds

December 31, 2011

	Business-Type Activities		
	Water	Sewer	Total
Assets			
<i>Noncurrent Assets:</i>			
Capital Assets:			
Depreciable Capital Assets, Net	\$147,276	\$432,136	\$579,412
Liabilities			
<i>Current Liabilities:</i>			
Accounts Payable	466	0	466
Contracts Payable	0	36,203	36,203
Accrued Wages	0	6,031	6,031
Intergovernmental Payable	0	1,980	1,980
Interfund Payable	339,411	528,555	867,966
Compensated Absences Payable	0	890	890
OPWC Loans Payable	46,970	0	46,970
<i>Total Current Liabilities</i>	<u>386,847</u>	<u>573,659</u>	<u>960,506</u>
<i>Long-Term Liabilities:</i>			
Compensated Absences Payable	0	3,782	3,782
OPWC Loans Payable	227,875	0	227,875
<i>Total Long-Term Liabilities</i>	<u>227,875</u>	<u>3,782</u>	<u>231,657</u>
<i>Total Liabilities</i>	<u>614,722</u>	<u>577,441</u>	<u>1,192,163</u>
Net Assets			
Invested in Capital Assets, Net of Related Debt	147,276	432,136	579,412
Unrestricted (Deficit)	(614,722)	(577,441)	(1,192,163)
<i>Total Net Assets (Deficit)</i>	<u>(\$467,446)</u>	<u>(\$145,305)</u>	<u>(\$612,751)</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, 2011*

	Business-Type Activities		
	Water	Sewer	Total
Operating Revenues			
Charges for Services	\$894	\$287,154	\$288,048
Operating Expenses			
Personal Services	(31,444)	103,196	71,752
Contractual Services	12,765	32,909	45,674
Depreciation	3,539	6,000	9,539
<i>Total Operating Expenses</i>	(15,140)	142,105	126,965
<i>Operating Income</i>	16,034	145,049	161,083
Non-Operating Expenses			
Interest and Fiscal Charges	(16,367)	0	(16,367)
<i>Income before Transfers</i>	(333)	145,049	144,716
Transfers Out	(16,610)	0	(16,610)
<i>Change in Net Assets</i>	(16,943)	145,049	128,106
<i>Net Deficit Beginning of Year</i>	(450,503)	(290,354)	(740,857)
<i>Net Deficit End of Year</i>	(<u>\$467,446</u>)	(<u>\$145,305</u>)	(<u>\$612,751</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, 2011

	Business-Type Activities		
	Water	Sewer	Total
Increase (Decrease) in Cash and Cash Equivalents			
Cash Flows from Operating Activities			
Cash Received from Customers	\$0	\$287,154	\$287,154
Cash Payments to Employees for Services	(62)	(113,112)	(113,174)
Cash Payments for Goods and Services	(32,984)	(2,642)	(35,626)
<i>Net Cash Provided by (Used for) Operating Activities</i>	<u>(33,046)</u>	<u>171,400</u>	<u>138,354</u>
Cash Flows from Noncapital Financing Activities			
Principal Paid on OPWC Loans	(46,970)	0	(46,970)
Interest and Fiscal Charges on OPWC Loans	(16,367)	0	(16,367)
Advances In	339,411	528,555	867,966
Advances Out	(226,418)	(699,955)	(926,373)
Transfers Out	(16,610)	0	(16,610)
<i>Net Cash Provided by (Used for) Noncapital Financing Activities</i>	<u>33,046</u>	<u>(171,400)</u>	<u>(138,354)</u>
<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, 2011

	Business-Type Activities		
	Water	Sewer	Total
Reconciliation of Operating Income to Net Cash Provided by Operating Activities			
Operating Income	\$16,034	\$145,049	\$161,083
Adjustments:			
Depreciation	3,539	6,000	9,539
Increase (Decrease) in Liabilities:			
Accounts Payable	(15,575)	(9,554)	(25,129)
Contracts Payable	0	36,203	36,203
Accrued Wages	(1,765)	(2,537)	(4,302)
Compensated Absences Payable	(28,162)	(4,442)	(32,604)
Intergovernmental Payable	(7,117)	681	(6,436)
<i>Total Adjustments</i>	(49,080)	26,351	(22,729)
<i>Net Cash Provided by (Used for) Operating Activities</i>	(33,046)	\$171,400	\$138,354

See accompanying notes to the basic financial statements

City of East Cleveland, Ohio
Statement of Fiduciary Assets and Liabilities
Agency Funds
December 31, 2011

Assets	
Equity Pooled in Cash and Cash Equivalents	<u><u>\$408,448</u></u>
Liabilities	
Deposits Held and Due to Others	<u><u>\$408,448</u></u>

See accompanying notes to the basic financial statements

City of East Cleveland, Ohio
Notes to the Basic Financial Statements
For The Year Ended December 31, 2011

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, 2011

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. No major funds are aggregated and presented in a single column. Fiduciary funds are reported by type.

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 are the City's major governmental funds:

General Fund The general fund is the operating fund of the City and is used to account for and report all financial resources except those required to be accounted for and reported 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.

Emergency Medical Services Fund This fund accounts for and reports changes from emergency medical services billings committed for use of emergency medical services in the community.

City of East Cleveland, Ohio
Notes to the Basic Financial Statements
For The Year Ended December 31, 2011

Community Development Block Grant Fund This fund accounts for and reports restricted federal grants for administrative costs of Community Development Block Grant Program.

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

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.

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.

City of East Cleveland, Ohio
Notes to the Basic Financial Statements
For The Year Ended December 31, 2011

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 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 8). 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, 2011, but which were levied to finance year 2012 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.

City of East Cleveland, Ohio
Notes to the Basic Financial Statements
For The Year Ended December 31, 2011

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".

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 2011, investments were limited to STAR Ohio, 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.

STAR Ohio is an investment pool managed by the State Treasurer's Office which allows governments within the State to pool their funds for investment purposes. STAR Ohio is not registered with the SEC as an investment company, but does operate in a manner consistent with Rule 2a7 of the Investment Company Act of 1940. Investments in STAR Ohio are valued at STAR Ohio's net asset value per share which is the price the investment could be sold for on December 31, 2011.

Investment procedures are restricted by the provisions of the Ohio Revised Code. Interest revenue credited to the general fund during 2011 amounted to \$905.

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.

Prepaid Items

Payments made to vendors for services that will benefit periods beyond December 31, 2011, 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.

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.

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 extend 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, 2011

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.

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.

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.

The entire compensated absence liability is reported on the government-wide financial statements.

On the governmental fund financial statements, compensated absences are recognized as a liability and expenditure to the extent payments come due each period upon the occurrence of employee resignations and retirements. These amounts are recorded in the account "Matured Compensated Absences Payable" in the general fund.

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 and compensated absences 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, 2011

Fund Balance

Fund balance is divided into five classifications based primarily on the extent to which the City is bound to observe constraints imposed upon the use of the resources in the governmental funds. The classifications are as follows:

Nonspendable The nonspendable fund balance category includes amounts that cannot be spent because they are not in spendable form, or legally or contractually required to be maintained intact. The “not in spendable form” criterion includes items that are not expected to be converted to cash.

Restricted Fund balance is reported as restricted when constraints placed on the use of resources are either externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments or is imposed by law through constitutional provisions or enabling legislation (City ordinances).

Enabling legislation authorizes the City to assess, levy, charge, or otherwise mandate payment of resources (from external resource providers) and includes a legally enforceable requirement that those resources be used only for the specific purposes stipulated in the legislation. Legal enforceability means that the City can be compelled by an external party—such as citizens, public interest groups, or the judiciary to use resources created by enabling legislation only for the purposes specified by the legislation.

Committed The committed fund balance classification includes amounts that can be used only for the specific purposes imposed by formal action (ordinance or resolution as both are equally binding) of City Council. Those committed amounts cannot be used for any other purpose unless City Council removes or changes the specified use by taking the same type of action (ordinance or resolution) it employed to previously commit those amounts. In contrast to fund balance that is restricted by enabling legislation, committed fund balance classification may be redeployed for other purposes with appropriate due process. Constraints imposed on the use of committed amounts are imposed by City Council, separate from the authorization to raise the underlying revenue; therefore, compliance with these constraints is not considered to be legally enforceable. Committed fund balance also incorporates contractual obligations to the extent that existing resources in the fund have been specifically committed for use in satisfying those contractual requirements.

Assigned Amounts in the assigned fund balance classification are intended to be used by the City for specific purposes but do not meet the criteria to be classified as restricted or committed. In governmental funds other than the general fund, assigned fund balance represents the remaining amount that is not restricted or committed. In the general fund, assigned amounts represent intended uses established by City Council or a City official delegated that authority by City Charter or ordinance, or by State Statute.

Unassigned Unassigned fund balance is the residual classification for the general fund and includes all spendable amounts not contained in the other classifications. In other governmental funds, the unassigned classification is used only to report a deficit balance.

The City applies restricted resources first when expenditures are incurred for purposes for which either restricted or unrestricted (committed, assigned, and unassigned) amounts are available. Similarly, within unrestricted fund balance, committed amounts are reduced first followed by assigned, and then unassigned amounts when expenditures are incurred for purposes for which amounts in any of the unrestricted fund balance classifications could be used.

City of East Cleveland, Ohio
Notes to the Basic Financial Statements
For The Year Ended December 31, 2011

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 police and fire pensions, school crossing guard program and law enforcement.

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

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.

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 as other 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.

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.

The City is reporting an extraordinary item during 2011 for the Cleveland Clinic settlement in the amount of \$7,800,000. For more information see Note 8, Receivables.

Estimates

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

City of East Cleveland, Ohio
Notes to the Basic Financial Statements
For The Year Ended December 31, 2011

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 – Changes in Accounting Principles and Restatement of Prior Year's Fund Balance

Changes in Accounting Principles

For year 2011, the City has implemented Governmental Accounting Standard Board (GASB) Statement No. 54, "Fund Balance Reporting and Governmental Fund Type Definitions" and GASB Statement No. 59, "Financial Instruments Omnibus".

GASB Statement No. 54 enhances the usefulness of fund balance information by providing clearer fund balance classifications that can be more consistently applied and by clarifying the existing governmental fund type definitions. This statement establishes fund balance classifications that comprise a hierarchy based primarily on the extent to which a government is bound to observe constraints imposed upon the use of the resources reported in governmental funds. The implementation of this statement did not result in a change in total fund balance but only the reclassification of fund balance on the City's financial statements.

GASB Statement No. 59 addresses significant practice issues that have arisen when accounting for financial instruments by updating and improving existing standards regarding financial reporting of certain financial instruments and external investment pools. The implementation of this statement did not result in any change in the City's financial statements.

Restatement of Prior Year's Fund Balance

During year 2011, it was determined that emergency medical service charges revenue was overstated in emergency medical service special revenue fund. This restatement had the following effect in the total fund balance at December 31, 2010, as it was previously recorded.

City of East Cleveland, Ohio
Notes to the Basic Financial Statements
For The Year Ended December 31, 2011

	General	Emergency Medical Services	Community Development	Other Governmental Funds	Total Governmental Funds
Fund Balance at December 31, 2010	(\$1,983,220)	\$1,611,713	\$40,879	\$1,336,788	\$1,006,160
Charges for Services	0	(505,654)	0	0	(505,654)
Restated Fund Balance at December 31, 2010	<u>(\$1,983,220)</u>	<u>\$1,106,059</u>	<u>\$40,879</u>	<u>\$1,336,788</u>	<u>\$500,506</u>

Note 4 – Compliance and Accountability

Compliance

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

Fund	Original Estimated Revenues Plus Carryover Balance	Original Appropriations	Excess
Governmental Funds			
<i>Special Revenue Funds:</i>			
Community Development	\$1,360,431	\$4,858,738	(\$3,498,307)
Older Americans	(129,475)	18,568	(148,043)
Court Community Service	(3,190)	0	(3,190)
Special Purpose Grant	9,004	341,744	(332,740)
Domestic Violence	(32,847)	38,315	(71,162)
Victims of Crimes Act	30,965	69,797	(38,832)
NSP-1	(696,198)	2,630,870	(3,327,068)
JAG Police	(6,179)	0	(6,179)
Cops Universal	0	200,000	(200,000)
Enterprise Funds			
Water	17,438	119,376	(101,938)
Sewer	(151,400)	260,251	(411,651)

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

Fund	Final Estimated Revenues Plus Carryover Balance	Final Appropriations	Excess
Governmental Funds			
<i>Special Revenue Funds:</i>			
Community Development	\$1,360,431	\$4,858,738	(\$3,498,307)
Older Americans	(129,475)	18,568	(148,043)
Domestic Violence	(32,847)	38,315	(71,162)
Community Cops	(696,198)	2,630,870	(3,327,068)
Cops Universal	0	200,000	(200,000)
FEMA Grant	2,628	44,749	(42,121)
Victims of Crimes Act	30,965	69,797	(38,832)
Court Community Services	(3,190)	0	(3,190)
Special Purpose Grant	9,004	341,744	(332,740)
JAG Police	(6,179)	0	(6,179)
Enterprise Funds			
Water	17,438	119,376	(101,938)
Sewer	(151,400)	260,251	(411,651)

City of East Cleveland, Ohio
Notes to the Basic Financial Statements
For The Year Ended December 31, 2011

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
Governmental Funds	
Older Americans	\$585,153
Courts Community Service	3,190
Domestic Violence	105,198
D.A.R.E.	127
Neighborhood Support Program	65,897
Victims of Crimes Act	44,923
Community Development	23,047
JAG Police	6,179
Enterprise Funds	
Water	339,411
Sewer	528,555

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

Fund/Function	Appropriations	Expenditures Plus Encumbrances	Excess
General Fund			
General Government			
Personal Services	\$11,357	\$12,181	(\$824)
Contractual Services	4,720	6,728	(2,008)
Human Resources			
Personal Services	169,340	172,544	(3,204)
Security of Persons and Property			
Police Department			
Personal Services	4,801,516	5,410,881	(609,365)
Contractual Services	36,296	149,810	(113,514)
Fire Department			
Personal Services	3,696,898	3,727,589	(30,691)
Materials and Supplies	335	5,828	(5,493)
Capital Outlay	0	21	(21)
Special Revenue Funds			
Older Americans			
Community Environment			
Personal Services	17,902	272,064	(254,162)
Materials and Supplies	632	78,325	(77,693)
Contractual Services	34	8,777	(8,743)
Other	0	4,015	(4,015)
Alcohol and Drug Treatment			
Security of Persons and Property			
Other	0	1,118	(1,118)
DARE			
Security of Persons and Property			
Personal Services	0	127	(127)
Computer Legalize Fees			
General Government			
Other	27,283	42,241	(14,958)
Engineering and Building			
General Government			
Contractual Services	0	2,874	(2,874)

(continued)

City of East Cleveland, Ohio
Notes to the Basic Financial Statements
For The Year Ended December 31, 2011

Fund/Function	Appropriations	Expenditures Plus Encumbrances	Excess
<i>Special Revenue Funds (Continued)</i>			
Victims of Crime Act			
Community Environment			
Contractual Services	\$21,347	\$26,899	(\$5,552)
<i>Capital Projects Funds</i>			
Permanent Improvement			
Capital Outlay			
Contractual Services	100,936	221,514	(120,578)
<i>Business-Type Activities</i>			
Sewer			
General Government			
Personal Services	23,403	113,112	(89,709)

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

Fund	Receipts Plus Unencumbered Cash	Final Appropriations	Excess
Governmental Funds:			
General	\$16,971,720	\$19,105,916	(\$2,134,196)
Community Development	(1,244,372)	4,858,738	(6,103,110)
Older Americans	(465,167)	18,568	(483,735)
FEMA Grant	2,628	44,749	(42,121)
Domestic Violence	(101,176)	38,315	(139,491)
NSP-1	700,359	2,630,870	(1,930,511)
Cops Universal	0	200,000	(200,000)
Courts Community Services	(3,190)	0	(3,190)
Special Purpose Grant	4,504	341,744	(337,240)
DARE	(127)	0	(127)
Victims of Crime Act	16,816	69,797	(52,981)
JAG Police	(6,179)	0	(6,179)
Permanent Improvement	159,767	444,936	(285,169)
Enterprise Funds			
Water	(336,285)	119,376	(455,661)
Sewer	(259,448)	260,251	(519,699)

Although these budgetary violations were not corrected by year end, the above final citations are a result of management failing to submit its approved appropriation realignments to the County Fiscal Officer. 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, 2011

Accountability

The following funds had deficit fund balances/net assets as of December 31, 2011:

Fund	Amount
Major Funds	
General Fund	\$1,056,293
Community Development	8,689
Nonmajor Funds	
Older Americans	587,092
Domestic Violence	105,198
Victims of Crimes Act	47,926
Courts Community Service	3,190
Neighborhood Support Program	67,084
JAG Police	6,179
Enterprise Funds	
Water	467,446
Sewer	145,305

The general fund included 2011 with a deficit fund balance of \$1,056,293. 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. Starting in 2010, the City began aggressively collecting in outstanding speeding tickets. The money is deposited into the general fund and then 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.

Note 5 – Fund Balances

Fund balance is classified as nonspendable, restricted, committed, assigned and/or unassigned based primarily on the extent to which the City is bound to observe constraints imposed upon the use of the resources in the government funds. The constraints placed on fund balance for the major governmental funds and all other governmental funds are presented below:

Fund Balances	General	Emergency Medical Services	Community Development	Other Governmental Funds	Total
<u>Nonspendable</u>					
Prepays	\$9,067	\$0	\$0	\$0	\$9,067
Inventory	7,622	0	753	3,033	11,408
Total Nonspendable	16,689	0	753	3,033	20,475
<u>Restricted for:</u>					
Street Improvements	0	0	0	354,838	354,838
Police Programs	0	0	0	826,648	826,648

(continued)

City of East Cleveland, Ohio
Notes to the Basic Financial Statements
For The Year Ended December 31, 2011

Fund Balances	General	Emergency Medical Services	Community Development	Nonmajor Governmental Funds	Total
<u>Restricted for (Continued):</u>					
Drug and Alcohol Enforcement	\$0	\$0	\$0	\$1,155	\$1,155
Parks and Recreation	0	0	0	693	693
Noise Abatement Award	0	0	0	26,289	26,289
School Crossing Guard Program	0	0	0	153,900	153,900
Special Projects Courts	0	0	0	579,553	579,553
Community Development					
/Home Program	0	0	0	4,504	4,504
Demographic Employment Opportunities	0	0	0	1,669	1,669
Court Computers	0	0	0	249,026	249,026
Engineering and Building Projects	0	0	0	19,575	19,575
Stategic Master Plan	0	0	0	21,987	21,987
S.T.E.P. Program	0	0	0	27,497	27,497
Capital Improvements	0	0	0	236,076	236,076
H.S. Brown Renovations	0	0	0	2,320	2,320
Transfer Station Improvements	0	0	0	548,842	548,842
Debt Service Payments	0	0	0	12,466	12,466
Total Restricted	0	0	0	3,067,038	3,067,038
<u>Committed to:</u>					
Emergency Medical Services	0	1,367,262	0	0	1,367,262
Wall of Fame Costs	0	0	0	1,011	1,011
Total Committed	0	1,367,262	0	1,011	1,368,273
<u>Assigned to:</u>					
Purchases On Order	106,041	0	0	0	106,041
Unassigned (Deficit)	(1,179,023)	0	(9,442)	(818,251)	(2,006,716)
Total Fund Balances (Deficit)	(\$1,056,293)	\$1,367,262	(\$8,689)	\$2,252,831	\$2,555,111

Note 6 - 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 and major special revenue funds are 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 restricted, committed or assigned fund balance (GAAP).

City of East Cleveland, Ohio
Notes to the Basic Financial Statements
For The Year Ended December 31, 2011

The adjustments necessary to convert the results of operations for the year on the GAAP basis to the budget basis for the general and major special revenue funds are as follows:

	Net Change in Fund Balance		
	General	Emergency Medical Services	Community Development
GAAP Basis	\$926,927	\$261,203	(\$49,568)
Net Adjustment for Revenue Accruals	(2,553,470)	(70,051)	(551,095)
Net Adjustment for Expenditure Accruals	2,157,198	140,498	341,138
Principal Retirement	(364,200)	0	(1,312)
Encumbrances	(404,329)	0	(2,342,597)
Budget Basis	<u>(\$237,874)</u>	<u>\$331,650</u>	<u>(\$2,603,434)</u>

Note 7 – Deposits and Investments

The City has chosen to follow the same State statutes and classify monies held by the City 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;

City of East Cleveland, Ohio
Notes to the Basic Financial Statements
For The Year Ended December 31, 2011

6. No-load money market mutual funds consisting exclusively of obligations described in division (1) or (2) and repurchase agreements secured by such obligations;
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.

Deposits

Custodial Credit Risk Custodial credit risk for deposits is the risk that in the event of bank failure, the City will not be able to recover deposits or collateral securities that are in the possession of an outside party. At December 31, 2011, the carrying amount of all City deposits was \$1,410,504. At year-end, none of the City's bank balance was uninsured and uncollateralized. Although the securities were held by the pledging financial institutions' trust department and all statutory requirements for the deposit of money had been followed, noncompliance with Federal requirements could potentially subject the City to a successful claim by the FDIC.

The City has no deposit policy for custodial risk beyond the requirements of State statute. Ohio law requires that deposits be either insured or be protected by eligible securities pledged to and deposited either with the City or a qualified trustee by the financial institution as security for repayment, or by a collateral pool of eligible securities deposited with a qualified trustee and pledged to secure the repayment of all public monies deposited in the financial institution whose market value at all times shall be at least one hundred five percent of the deposits being secured.

Investments

As of December 31, 2011, the City had the following investments:

Investment Type	Fair Value	Average Maturity (days)
Victory Federal Money Market Mutual Fund	\$3,239,737	30
STAR Ohio	124,083	57
Total Investments	<u>\$3,363,820</u>	

City of East Cleveland, Ohio
Notes to the Basic Financial Statements
For The Year Ended December 31, 2011

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. STAR Ohio carries a rating of AAAM by Standard and Poor's. Ohio law requires that STAR Ohio maintain the highest rating provided by at least one nationally recognized standard rating service. The City has no investment policy that addresses credit risk.

Note 8 - Receivables

Receivables at December 31, 2011, 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.

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 2011 for real and public utility property taxes represents collections of the 2010 taxes. Property tax payments received during 2011 for tangible personal property (other than public utility property) are for 2011 taxes.

2011 real property taxes are levied after October 1, 2011, on the assessed value as of January 1, 2011, the lien date. Assessed values are established by State law at 35 percent of appraised market value. 2011 real property taxes are collected in and intended to finance 2012.

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

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. 2011 public utility property taxes which became a lien December 31, 2010, are levied after October 1, 2011, and are collected in 2012 with real property taxes.

The full tax rate for all City operations for the year ended December 31, 2011, was \$12.70 per \$1,000 of assessed value. The assessed values of real and tangible personal property upon which 2011 property tax receipts were based as follows:

Real Estate	
Residential/Agriculture	\$119,925,360
Commercial Industrial/Public Utility	50,823,200
Tangible Personal Property	
Public Utility	8,926,270
Total Valuation	<u><u>\$179,674,830</u></u>

City of East Cleveland, Ohio
Notes to the Basic Financial Statements
For The Year Ended December 31, 2011

The County Treasurer collects property taxes on behalf of all taxing districts in the County, including the City of East Cleveland. The County Fiscal Officer periodically remits to the City its portion of the taxes collected. Property taxes receivable represents real property taxes, public utility taxes and outstanding delinquencies which are measurable as of December 31, 2011 and for which there is an enforceable legal claim. In the governmental funds the entire receivable has been offset by deferred revenue since the current taxes were not levied to finance 2011 operations and the collection of delinquent taxes during the available period is not subject to reasonable estimation. On a full accrual basis, delinquent property taxes have been recorded as revenue while the remainder of the receivable is deferred.

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.

Intergovernmental Receivables

A summary of intergovernmental receivables follows:

Intergovernmental Receivables	Amount
Governmental Activities	
CDBG/Home Program Grants	\$2,821,484
Local Government	1,071,547
Local Law Enforcement Grant	168,225
Homestead and Rollback	150,969
Gasoline Tax	98,003
Gasoline Cents per Gallon	49,979
Auto License Tax	31,707
Estate Tax	31,505
Other Grants	28,252
Commercial Activity Tax	19,853
Public Utility Reimbursement	16,181
Permissive Tax	5,288
Cuyahoga County	1,383
<i>Grand Total</i>	\$4,494,376

Accounts Receivable

During 2011, the City entered into a cooperation agreement with The Cleveland Clinic Foundation (the Clinic). The City agreed to cooperate with the Clinic to effect an orderly and efficient closure of Huron Hospital, assist the Clinic with the opening of Huron Community Health Center and the transition of patient care to the new facility. The Clinic agreed to contribute \$6,000,000 (support payment) to the City to ease the loss of certain tax revenues associated with the operation of Huron Hospital. The Clinic agreed to pay the City the difference between \$1,100,000 and the actual payroll taxes paid to the City in 2011 and the remaining support payment in equal monthly installments through December 31, 2016.

City of East Cleveland, Ohio
Notes to the Basic Financial Statements
For The Year Ended December 31, 2011

Following the closure of Huron Hospital, the Clinic will remove assets that the Clinic determines can be used within its health system or otherwise. At the Clinic's discretion, the Clinic will sell all or a portion of the remaining assets and contribute an amount equal to the value of the proceeds up to a value of \$1,800,000. If the value of the proceeds from the sale plus the fair market value of the donated assets is less than \$1,800,000, the Clinic will pay East Cleveland the difference.

During 2011, the City requested and received an advance on the future payments for a total of \$3,000,000 received from the Clinic.

Note 9 – Capital Leases

The City has capital leases for three Toshiba copiers, two leases with Metrolease for copiers, a lease for 10 police vehicles and three leases for copiers. 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 \$445,177, the present value of the minimum lease payments at the inception of the leases.

Governmental Activities:	
Asset	
Vehicles	\$379,392
Equipment	65,785
<i>Total Capital Assets, Being Depreciated:</i>	445,177
Accumulated Depreciation	
Vehicles	283,034
Equipment	49,375
<i>Total Accumulated Depreciation</i>	332,409
<i>Governmental Activities Capital Assets, Net</i>	\$112,768

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, 2011.

Year	Amount
2012	\$94,062
2013	59,417
2014	2,560
Total minimum lease payments	156,039
Less: Amount representing interest	(9,104)
Present Value of minimum lease payments	\$146,935

City of East Cleveland, Ohio
Notes to the Basic Financial Statements
For The Year Ended December 31, 2011

Note 10 - Capital Assets

Capital asset activity for the year ended December 31, 2011, was as follows:

	Balance 12/31/2010	Additions	Deductions	Balance 12/31/2011
Governmental Activities				
<i>Capital Assets not being Depreciated:</i>				
Land	\$920,260	\$0	\$0	\$920,260
Construction in Progress	959,985	0	(959,985)	0
<i>Total Capital Assets not being Depreciated</i>	<u>1,880,245</u>	<u>0</u>	<u>(959,985)</u>	<u>920,260</u>
<i>Capital Assets being Depreciated:</i>				
Buildings and Improvements	4,400,375	0	0	4,400,375
Equipment	3,091,403	27,201	0	3,118,604
Vehicles	4,197,366	86,012	(14,000)	4,269,378
Infrastructure	21,097,517	959,985	0	22,057,502
<i>Total Capital Assets being Depreciated</i>	<u>32,786,661</u>	<u>1,073,198</u>	<u>(14,000)</u>	<u>33,845,859</u>
<i>Less Accumulated Depreciation:</i>				
Buildings and Improvements	(3,284,308)	(52,368)	0	(3,336,676)
Equipment	(2,914,172)	(72,610)	0	(2,986,782)
Vehicles	(3,625,079)	(154,774)	14,000	(3,765,853)
Infrastructure	(6,668,916)	(422,549)	0	(7,091,465)
<i>Total Accumulated Depreciation</i>	<u>(16,492,475)</u>	<u>(702,301)</u>	<u>14,000</u>	<u>(17,180,776)</u>
Total Capital Assets being Depreciated, Net	16,294,186	370,897	0	16,665,083
Governmental Activities Capital Assets, Net	<u>\$18,174,431</u>	<u>\$370,897</u>	<u>(\$959,985)</u>	<u>\$17,585,343</u>
Business-Type Activities				
<i>Capital Assets not being Depreciated:</i>				
Construction in Progress	\$315,123	\$0	(\$315,123)	\$0
<i>Capital Assets being Depreciated:</i>				
Equipment	99,110	0	0	99,110
Vehicles	203,994	0	0	203,994
Infrastructure	290,441	315,123	0	605,564
<i>Total Capital Assets being Depreciated</i>	<u>593,545</u>	<u>315,123</u>	<u>0</u>	<u>908,668</u>
<i>Less Accumulated Depreciation:</i>				
Equipment	(85,488)	(1,520)	0	(87,008)
Vehicles	(164,913)	(3,850)	0	(168,763)
Infrastructure	(69,316)	(4,169)	0	(73,485)
<i>Total Accumulated Depreciation</i>	<u>(319,717)</u>	<u>(9,539)</u>	<u>0</u>	<u>(329,256)</u>
Total Capital Assets being Depreciated, Net	273,828	305,584	0	579,412
Business Type Activities Capital Assets, Net	<u>\$588,951</u>	<u>\$305,584</u>	<u>(\$315,123)</u>	<u>\$579,412</u>

Depreciation expense was charged to governmental functions as follows:

General Government	\$348,921
Security of Persons and Property	88,638
Leisure Time Activities	7,395
Basic Utility Services	110
Community Environment	4,638
Transportation	252,599
Total Depreciation Expense	<u>\$702,301</u>

City of East Cleveland, Ohio
Notes to the Basic Financial Statements
For The Year Ended December 31, 2011

Note 11 – Employee Benefits

Compensated Absences

All eligible employees receive 15 sick days per year. Unused sick leave benefits are allowed to accumulate indefinitely. Upon retirement, non-bargaining unit employees and police men receive one-fourth of accumulated sick leave up to 240 hours. Upon retirement from the Division of Fire, either through service or disability, and with twelve years of service with the City, a bargaining unit member will be compensated for one quarter of his unused, accrued sick leave hours, not to exceed 120 days. Employees can hold up to two years' worth of vacation leave. Upon retirement, termination or death of the employee, vacation is paid for time the employees have earned but not used.

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 \$529.59 per month for individual coverage and \$1,324.55 per month for family coverage. Option two is \$576.36 per month for individual coverage and \$1,441.55 per month for family coverage. Medical Mutual provides dental and vision coverage. The cost for dental coverage is \$20.96 for individual coverage and \$58.89 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 \$50,000 coverage for \$.15/\$1,000 coverage per month; firemen receive up to \$30,000 coverage for \$.15 per/\$1,000 coverage per month. The fire chief and police chief receive up to \$50,000 coverage for \$.15 per/\$1,000 coverage per month. For police, the City pays the full amount. For fire, the City pays half the monthly premium and the employee pays the other half. All other City employees pay \$.15 per \$1,000 of coverage per month up to a maximum of \$50,000.

Note 12 – Local Government Fund Notes

On December 28, 2005, the City, in accordance with Ohio Revised Code Section 118.17(C), issued \$2,913,600 in local government fund notes at 4.19 percent interest to eliminate deficit funds. The note proceeds were transferred to the Older American, Community Development Block Grant, 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 2011 follows:

	Outstanding 12/31/2010	Additions	(Reductions)	Outstanding 12/31/2011
Governmental Activities				
Local Government Fund Notes	\$1,140,085	\$0	(\$364,200)	\$775,885

Principal and interest requirements to retire the notes outstanding at December 31, 2011, are as follows:

		Governmental Activities	
		Local Government	
		Notes	
		Principal	Interest
	2012	\$364,200	\$49,595
	2013	411,685	19,074
	Total	\$775,885	\$68,669

City of East Cleveland, Ohio
Notes to the Basic Financial Statements
For The Year Ended December 31, 2011

Note 13 – 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
Governmental Activities		
OPWC Loans:		
2003 Euclid Avenue Rehabilitation	\$2,951,444	2028
2006 Windermere/Idlewood/Knowles Road	977,988	2028
Business-Type Activities		
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
2008 Belmore Street Waterline Repair Project	102,014	2030

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 2011 follows:

	Outstanding 12/31/2010	Additions	(Reductions)	Outstanding 12/31/2011	Due in One Year
Governmental Activities					
OPWC Loans:					
Euclid Avenue Rehabilitation	\$2,508,728	\$0	(\$147,572)	\$2,361,156	\$147,572
Windemere/ Idlewood/ Knowles Road	880,190	0	(48,899)	831,291	48,899
Total OPWC Loans	3,388,918	0	(196,471)	3,192,447	196,471
Capital Leases	221,881	0	(74,946)	146,935	86,973
Police and Fire Pension Liability	1,413,477	0	(33,741)	1,379,736	35,193
Compensated Absences	1,222,017	917,177	(681,980)	1,457,214	34,340
Total Governmental Activities	<u>\$6,246,293</u>	<u>\$917,177</u>	<u>(\$987,138)</u>	<u>\$6,176,332</u>	<u>\$352,977</u>
Business-Type Activities					
OPWC Loans:					
Water Main Project Phase I	\$68,906	\$0	(\$19,687)	\$49,219	\$19,687
Water Main Project Phase II	128,383	0	(19,752)	108,631	19,752
Brunswick Road Water Main Improvement Project	10,426	0	(1,158)	9,268	1,158
Forest Hills Water Main Project	12,086	0	(1,272)	10,814	1,272
Belmore Road Waterline Repair	102,014	0	(5,101)	96,913	5,101
Total OPWC Loans	321,815	0	(46,970)	274,845	46,970
Compensated Absences	37,276	32,604	(65,208)	4,672	890
Total Business-Type Activities	<u>\$359,091</u>	<u>\$32,604</u>	<u>(\$112,178)</u>	<u>\$279,517</u>	<u>\$47,860</u>

Capital leases will be paid with various revenues from the general fund, the community development block grant special revenue fund and the permanent improvement capital projects fund. The police and fire pension liability will be paid from the police accrued liability and fire accrued liability funds. The decrease in police and fire pension liability includes \$48,019 that matured in prior years, and \$33,741 that matured during 2011, but has not yet been paid. Compensated absences will be paid from the general, older Americans, community development block grant, and sewer funds.

City of East Cleveland, Ohio
Notes to the Basic Financial Statements
For The Year Ended December 31, 2011

The Euclid Avenue rehabilitation and the Windemere /Idlewood/Knowles Road OPWC loans will be paid from the permanent improvement fund. Enterprise OPWC loans will be paid from the water fund from user charges.

During 2011, the City repaid the OPWC loans for water lines in the water fund. The debt is payable through 2030 and the total principal remaining to be paid on the debt is \$274,845. Principal paid for the current year was \$46,970, and total revenues were \$ 894. In 2011, 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 \$18,865,857 at December 31, 2011.

Principal and interest requirements to retire long-term obligations outstanding at December 31, 2011, are as follows:

	Governmental Activities		Business-Type Activities	
	Police and Fire Liability		OPWC Loans	
	Principal	Interest	Principal	Principal
2012	\$35,193	\$59,856	\$196,471	\$46,970
2013	36,708	58,404	196,471	46,970
2014	38,288	56,889	196,471	37,129
2015	39,936	53,660	196,471	27,283
2016	41,655	51,941	196,471	27,283
2017-2021	236,771	231,211	982,356	43,305
2022-2026	292,323	175,659	982,356	25,504
2027-2031	360,915	107,067	245,380	20,401
2032-2035	297,947	25,655	0	0
Total	<u>\$1,379,736</u>	<u>\$820,342</u>	<u>\$3,192,447</u>	<u>\$274,845</u>

Note 14 – Defined Benefit Pension Plans

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, but less than, 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.

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 visiting <https://www.opers.org/investments/cafr.shtml>, writing to OPERS, 277 East Town Street, Columbus, OH 43215-4642, or by calling 614-222-5601 or 800-222-7377.

City of East Cleveland, Ohio
Notes to the Basic Financial Statements
For The Year Ended December 31, 2011

Funding Policy – The Ohio Revised Code provides statutory authority for member and employer contributions and currently limits the employer contribution to a rate not to exceed 14 percent of covered payroll for state and local employer units and 18.1 percent of covered payroll for law enforcement and public safety employer units. Member contribution rates, as set forth in the Ohio Revised Code, are not to exceed 10 percent of covered payroll for members in State and local divisions and 12 percent for law enforcement and public safety members. For the year ended December 31, 2011, members in state and local classifications contributed 10.0 percent of covered payroll and public safety and law enforcement members contributed 11 percent and 11.6 percent, respectively. While members in the state and local divisions may participate in all three plans, law enforcement and public safety divisions exist only within the Traditional Pension Plan. For 2011, member and employer contribution rates were consistent across all three plans.

The City's 2011 contribution rate was 14.0 percent. The portion of employer contributions used to fund pension benefits is net of post-employment health care benefits. The portion of employer contribution allocated to health care for members in the Traditional Plan was 4.0 percent for the year ended December 31, 2011. The portion of employer contributions allocated to health care for members in the Combined Plan was 6.05 percent for the year ended December 31, 2011. Employer contribution rates are actuarially determined.

The City's required contributions for pension obligations to the Traditional and Combined Plans for the years ended December 31, 2011, 2010, and 2009 was \$445,797, \$391,307, and \$392,282, respectively. For 2011, 95.34 percent has been contributed with the balance being reported as an intergovernmental payable. The full amount has been contributed for 2010 and 2009. Contributions to the Member-Directed Plan for 2011 were \$4,943 made by the City and \$3,531 made by the plan members.

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 publically 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 – The Ohio Revised Code requires plan members to contribute 10.0 percent of their annual covered salary, while employers are required to contribute 19.5 percent for police officers and 24.0 percent for firefighters.

The OP&F Pension Fund is authorized by the Ohio Revised Code to allocate a portion of the employer contributions to retiree health care benefits. The portion of employer contributions used to fund pension benefits was 12.75 percent of covered payroll for police officers and 17.25 percent of covered payroll for firefighters. The City's contributions to OP&F for police and firefighters were \$278,181 and \$442,952 for the year ended December 31, 2011, \$269,071 and \$484,394 for the year ended December 31, 2010, and \$272,845 and \$399,464 for the year ended December 31, 2009, respectively. For 2011, 100 percent for both police and firefighters is being reported as an intergovernmental payable, as the fourth quarter payments for 2011 were still outstanding at December 31, 2011. The full amount has been contributed for 2010 and 2009.

In addition to current contributions, the City pays installments on the accrued liability incurred when the State of Ohio established the statewide pension system for police and fire fighters in 1967. As of December 31, 2011, the unfunded liability of the City was \$1,379,736 payable in semi-annual payments through the year 2035. This is an accounting liability of the City which will not vary.

City of East Cleveland, Ohio
Notes to the Basic Financial Statements
For The Year Ended December 31, 2011

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, 2011, one member of Council is covered by Social Security. The City's liability is 6.2 percent of wages paid.

Note 15 – Postemployment Benefits

Ohio Public Employees Retirement System

Plan Description – Ohio Public Employees Retirement System (OPERS) administers three separate pension plans: The Traditional Pension Plan—a cost sharing, multiple-employer defined benefit pension plan; the Member-Directed Plan—a defined contribution plan; and the Combined Plan—a cost sharing, multiple employer defined benefit pension plan that has elements of both a defined benefit and defined contribution plan.

OPERS maintains a cost-sharing multiple-employer defined benefit post-employment health care plan for qualifying members of both the Traditional Pension and the Combined Plans. Members of the Member-Directed Plan do not qualify for ancillary benefits, including post-employment health care coverage. The plan includes a medical plan, prescription drug program and Medicare Part B premium reimbursement.

In order to qualify for post-employment health care coverage, age-and-service retirees under the Traditional Pension and Combined Plans must have 10 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 mandate, 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 the OPERS financial report which may be obtained by visiting <https://www.opers.org/investments/cafr.shtml>, 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). The Ohio Revised Code provides the statutory authority requiring public employers fund post-employment health care through their contributions to OPERS. A portion of each employer's contribution to the traditional or combined plans is set aside for the funding of post-employment health care.

Employer contribution rates are expressed as a percentage of the covered payroll of active members. In 2011, state and local government employers contributed at a rate of 14.0 percent of covered payroll, and public safety and law enforcement employers contributed at 18.1 percent. These are the maximum employer contribution rates permitted by the Ohio Revised Code.

Each year, the OPERS Retirement Board determines the portion of the employer contribution rate that will be set aside for funding of post-employment health care benefits. The portion of employer contributions allocated to health care for members in the Traditional Plan was 4.0 percent for the year ended December 31, 2011. The portion of employer contributions allocated to health care for members in the Combined Plan was 6.05 percent for the year ended December 31, 2011.

City of East Cleveland, Ohio
Notes to the Basic Financial Statements
For The Year Ended December 31, 2011

The OPERS Retirement Board is also authorized to establish rules for the payment of a portion of the health care benefits provided, by the retiree or their surviving beneficiaries. Payment amounts vary depending on the number of covered dependents and the coverage selected. Active members do not make contributions to the post-employment health care plan.

The City's contributions allocated to fund post-employment health care benefits for the years ended December 31, 2011, 2010 and 2009 were \$178,319, \$253,198, and \$283,650, respectively. For 2011, 95.34 percent has been contributed with the balance being reported as an intergovernmental payable. The full amount has been contributed for 2010 and 2009.

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 of each year from 2006 to 2008. Rates for law and public safety employers increased over a six year period beginning on January 1, 2006, with a final rate increase on January 1, 2011. These rate increases allowed additional funds to be allocated to the health care plan.

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 and long-term care to retirees, qualifying benefit recipients and their eligible dependents.

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 health care coverage provided by OP&F meets the definition of an Other Post-Employment Benefit (OPEB) as described in GASB Statement No. 45.

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 – The Ohio Revised Code provides for contribution requirements of the participating employers and of plan members to the OP&F defined benefit pension plan. Participating employers are required by Ohio Revised Code to contribute to the pension plan at rates expressed as percentages of the payroll of active pension plan members, currently, 19.5 percent and 24.0 percent of covered payroll for police and fire employers, respectively. Active members do not make contributions to the OPEB Plan.

OP&F maintains funds for health care in two separate accounts. One for health care benefits under an IR S Code Section 115 trust and one for Medicare Part B reimbursements administered as an Internal Revenue Code 401(h) account, both of which are within the defined benefit pension plan, under the authority granted by the Ohio Revised Code to the OP&F Board of Trustees.

The Board of Trustees is authorized to allocate a portion of the total employer contributions made into the pension plan to Section 115 trust and the Section 401(h) account as the employer contribution for retiree health care benefits. For the year ended December 31, 2011, the employer contribution allocated to the

City of East Cleveland, Ohio
Notes to the Basic Financial Statements
For The Year Ended December 31, 2011

health care plan was 6.75 percent of covered pay roll. 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 115 and 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 \$147,272 and \$173,329 for the year ended December 31, 2011, \$142,449 and \$189,546 for the year ended December 31, 2010, and \$144,447 and \$156,312 for the year ended December 31, 2009. For 2011, 100 percent for both police and firefighters is being reported as an intergovernmental payable, as the fourth quarter payments for 2011 were still outstanding at December 31, 2011. The full amount has been contributed for 2010 and 2009.

Note 16 – Contingencies

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, 2011.

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 17 – Risk Management

The City of East Cleveland is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; injuries to employees natural disasters. During 2011, the City contracted with Scottsdale Indemnity Company for blanket building and business personal property general liability with \$20,720,662 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, 2010; however, neither was settled by year-end, so there is no change in the claims liability amount for 2011.

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

City of East Cleveland, Ohio
Notes to the Basic Financial Statements
For The Year Ended December 31, 2011

Note 18 – Operating Leases

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 \$1,870 per month. For 2011, the City paid rental costs of \$22,440. 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 2011, the City paid rental costs of \$11,180. The City must provide the lessor written notice at least 90 days prior to termination of the lease.

Note 19 – Interfund Transactions

Interfund Balances

Interfund balances at December 31, 2011 consisted of the following:

Interfund Payable	Interfund Receivable		Total
	General Fund	Emergency Medical Services	
Major Fund:			
Community Development	\$23,047	\$0	\$23,047
Nonmajor Funds:			
Older Americans	585,153	0	585,153
Domestic Violence	105,198	0	105,198
D.A.R.E.	0	127	127
Neighborhood Support Program	65,897	0	65,897
Victims of Crimes Act	44,923	0	44,923
JAG Police	6,179	0	6,179
Courts Community Service	3,190	0	3,190
Total Governmental Funds	810,540	127	810,667
Enterprise Funds:			
Water	339,411	0	339,411
Sewer	443,320	85,235	528,555
Total Enterprise Funds	782,731	85,235	867,966
Grand Total	\$1,616,318	\$85,362	\$1,701,680

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.

Interfund Transfers

Interfund transfers at December 31, 2011 consisted of \$16,610 from the water enterprise fund to the permanent improvement capital project fund for an OPWC loan payment.

City of East Cleveland, Ohio
Notes to the Basic Financial Statements
For The Year Ended December 31, 2011

Note 20 – Significant Commitments

Encumbrances

Encumbrances are commitments related to unperformed contracts for goods or services. Encumbrance accounting is utilized to the extent necessary to assure effective budgetary control and accountability and to facilitate effective cash planning and control. At year-end the amount of encumbrances expected to be honored upon performance by the vendor in the next year were as follows:

<u>Governmental Funds:</u>	
General fund	\$404,329
Community Development	2,342,597
Other governmental Funds	<u>615,827</u>
Total Governmental Funds	<u><u>\$3,362,753</u></u>
 <u>Proprietary Fund:</u>	
Sewer	<u><u>\$14,429</u></u>

Note 21 – Subsequent Events

On January 5, 2012, the Auditor of State’s office declared the City to be in a state of fiscal caution under Section 118.025(A) of the Ohio Revised Code. The City had deficit fund balances as of November 30, 2011 in the amount of \$5,872,222 and the deficits exceeded two percent of the estimated revenue of those funds by \$5,451,535.

On May 23, 2012, the Auditor of State’s office declared the City to be in a state of fiscal watch under Section 118.025(E) of the Ohio Revised Code. The City did not provide an acceptable proposal for correcting the conditions that prompted the declaration of fiscal caution.

On October 9, 2012, the Auditor of State’s office declared the City of East Cleveland to be in a state of fiscal emergency in accordance with Section 118.03, Ohio Revised Code. The declaration resulted in the establishment of a Financial Planning and Supervision Commission. The Commission is comprised of the Mayor of the City, Council President, three financial consultants from various corporations and/or organizations within the City and two representatives from the State of Ohio. The City has 120 days after the first meeting of the Commission to approve a financial recovery plan. Once the plan has been adopted, the City’s discretion is limited in that all financial activity of the City must be in accordance with the plan.

In November 2012, the City requested and received an advance on the future payments in the amount of \$3,000,000 from the Cleveland Clinic.

In May 2013, the City requested and received the final payment in the amount of \$1,800,000 from the Cleveland Clinic.

**Report on Internal Control over Financial Reporting and on
Compliance and Other Matters Based on an Audit of Financial Statements
Performed in Accordance with *Government Auditing Standards***

Honorable Mayor and
Members of the City Council
East Cleveland, Ohio

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of East Cleveland, Ohio (the “City”), as of and for the year ended December 31, 2011, which collectively comprise the City’s basic financial statements and have issued our report thereon dated September 30, 2013, wherein we noted the City adopted *GASB Statement Nos. 54 and 59*, as disclosed in Note 3. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control over Financial Reporting

Management of the City is responsible for establishing and maintaining effective 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 auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City’s internal control over financial reporting. Accordingly, we do not express an opinion 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, and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as described in the accompanying schedule of findings, we identified certain deficiencies in internal control over financial reporting that we consider to be material weaknesses.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. 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 City’s financial statements will not be prevented, or detected and corrected on a timely basis. We consider the following deficiencies described in the accompanying schedule of findings to be material weaknesses: 2011-01 through 2011-03.

Honorable Mayor and
Members of the City Council
East Cleveland, Ohio

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying schedule of findings as items 2011-04 through 2011-08.

We noted certain other matters that we reported to management of the City in a separate letter dated September 30, 2013.

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.

This report is intended solely for the information and use of management, City Council, Finance Committee, others within the entity, the Auditor of State's Office, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Cimini & Panichi, Inc.

Cleveland, Ohio
September 30, 2013

**Independent Auditor's Report on Compliance with Requirements That Could Have a
Direct and Material Effect on Each Major Program and on Internal Control
Over Compliance in Accordance with OMB Circular A-133**

Honorable Mayor and
Members of City Council
City of East Cleveland

Compliance

We have audited the City of East Cleveland, Ohio's (the "City") compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the City's major federal programs for the year ended December 31, 2011. The City's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the City's management. Our responsibility is to express an opinion on the City's compliance based on our audit.

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

In our opinion, the City complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended December 31, 2011. However, the results of our auditing procedures disclosed instances of noncompliance with those requirements, which are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying schedule of findings as items 2011-09 and 2011-10.

Internal Control over Compliance

Management of the City 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 the requirements that could have a direct and material effect on a major federal program to determine the auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over compliance.

Honorable Mayor and
Members of the City Council
East Cleveland, Ohio

A *deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. 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 type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to 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.

The City's responses to the finding 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 the responses.

Schedule of Expenditures of Federal Awards

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City as of and for the year ended December 31, 2011, and have issued our report thereon dated September 30, 2013, which contained unqualified opinions on those financial statements, wherein we noted the City adopted *GASB Statement Nos. 54 and 59*, as disclosed in Note 3. Our audit was performed for the purpose of forming opinions on the financial statements as a whole. The accompanying schedule of expenditures of federal awards is presented for the purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditure of federal awards is fairly stated in all material respects in relation to the financial statements as a whole.

This report is intended solely for the information and use of management, City Council, Finance Committee, others within the entity, the Auditor of State's Office and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Cini & Panichi, Inc.

Cleveland, Ohio
September 30, 2013

City of East Cleveland

Schedule of Expenditures of Federal Awards

For the Year Ended December 31, 2011

<u>Federal Grantor/Pass-Through Grantor/Program or Cluster Title</u>	<u>Federal CFDA Number</u>	<u>Federal Expenditures</u>
U.S. Department of Health and Human Services:		
Passed Through Western Reserve Area on Aging:		
Older Americans Title III, Part B – Grants for Supportive Services and Senior Centers	93.044	\$ 26,026
Older Americans Title III, Part C – Nutrition Services	93.045	32,113
Total U.S. Department of Health and Human Services		<u>58,139</u>
U.S. Department of Justice:		
Passed Through Office of Community Oriented Policing Services:		
COPS Hiring Recovery Program (CHRP)	16.710	236,915
Passed Through Office of Justice Programs:		
Recovery Act – Justice Assistance Grant (JAG)	16.804	10,219
Passed Through Office of Victims of Crime:		
Victims of Crime Act Grant (VOCA)	16.575	47,702
State Victims Assistance Act (SVAA)	16.575	16,245
Total U.S. Department of Justice		<u>311,081</u>
U.S. Department of Housing and Urban Development:		
Direct Programs:		
Community Development Block Grant, Entitlement Program	14.218	1,282,785
Home Investment Partnership Program	14.239	287,460
Passed Through Office of Community Planning and Development:		
Community Development Block Grant/State's Program & Non-Entitlement Grants in Hawaii (State Administered Small Cities Program)	14.228	404,711
Total U.S. Department of Housing and Urban Development		<u>1,974,956</u>
Total Expenditures of Federal Awards		\$ <u>2,344,176</u>

The accompanying notes are an integral part of this schedule

City of East Cleveland

Notes to the Schedule of Expenditures of Federal Awards

For the Year Ended December 31, 2011

Note 1 – Summary of Significant Accounting Policies

The accompanying Federal Awards Expenditures Schedule (the Schedule) reports the City of East Cleveland (the “City”) federal award programs. The Schedule has been prepared on the cash basis of accounting.

Note 2 – Subrecipients

The City passes certain federal awards received from U.S. Department of Housing and Urban Development to other governments or not-for-profit agencies (subrecipients). As Note 1 describes, the City reports expenditures of Federal awards to subrecipients when paid in cash.

As a subrecipient, the City has certain compliance responsibilities, such as monitoring its subrecipients to help assure they use these subawards as authorized by laws, regulations, and the provisions of contracts or grant agreements, and that subrecipients achieve the award’s performance goals.

City of East Cleveland, Ohio

Schedule of Findings

For the Year Ended December 31, 2011

1. Summary of Auditor's Results

(d)(1)(i)	Type of Financial Statement Opinion	Unqualified
(d)(1)(ii)	Were there any material control weaknesses reported at the financial statement level (GAGAS)?	Yes
(d)(1)(ii)	Were there any significant deficiencies in internal control reported at the financial statement level (GAGAS)?	No
(d)(1)(iii)	Was there any reported material noncompliance at the financial statement level (GAGAS)?	Yes
(d)(1)(iv)	Were there any material internal control weaknesses reported for major federal programs?	No
(d)(1)(iv)	Were there any significant deficiencies in internal control reported for major federal programs?	No
(d)(1)(v)	Type of Major Programs' Compliance Opinion	Unqualified
(d)(1)(vi)	Are there any reportable findings under Section .510(a)?	Yes
(d)(1)(vii)	Major Programs	Community Development Block Grants/State's Program and non-Entitlement Grants in Hawaii (State Administered Small Cities Program), CFDA # 14.228 Community Development Block Grants/Entitlement Grants. CFDA # 14.218
(d)(1)(viii)	Dollar Threshold: Type A/B Programs	Type A: >\$300,000 Type B: All Others
(d)(1)(ix)	Low Risk Auditee?	No

City of East Cleveland, Ohio

Schedule of Findings

For the Year Ended December 31, 2011

2. Findings Related to the Financial Statements Required to be Reported in Accordance with GAGAS

2011-01 – Material weakness – audit adjustments

Sound financial reporting is the responsibility of the City Finance Director and the City Council and is essential to ensure the information provided to the readers of the financial statements is complete and accurate. The lack of controls over the posting of financial transactions and financial reporting can result in errors and irregularities that may go undetected and decreases the reliability of financial data throughout the year.

The following audit adjustments were made to the financial statements:

- Adjusted accounts payable to actual at December 31, 2011.
- Restatement of emergency medical service charges revenue that was overstated in 2010 in the emergency medical service special revenue fund.
- Adjusted contracts payable to actual at December 31, 2011.
- Adjusted EMS receivable to actual at December 31, 2011.
- Adjusted income tax receivable to remove the uncollectible portion from the receivable balance as estimated by R.I.T.A.

We also noted multiple instances where adjustments were needed for non-payroll expenditures that were booked to payroll accounts within the City's computer system.

The lack of controls over financial reporting can result in errors and irregularities that may go undetected and decreases the reliability of financial data at year-end.

We recommend the City adopts policies and procedures for controls over year-end financial reporting to help ensure the information accurately reflects the activity of the City, thereby increasing the reliability of the financial data at year-end. The City's management needs to review the statements to be sure that all items are being properly recorded.

2011-02 – Material weakness – capital assets

During our procedures performed over the City's capital assets, it was noted that the cost and accumulated depreciation totals in the client's system do not tie to the amounts reported in the City's 2011 financial statements.

We recommend that the City reconcile the amounts reported in the City's computer system in order to accurately report the amount of capital assets and accumulated depreciation at year-end.

City of East Cleveland, Ohio

Schedule of Findings (continued)

For the Year Ended December 31, 2011

2. Findings Related to the Financial Statements Required to be Reported in Accordance with GAGAS (continued)

2011-03 – Material weakness – maintaining payroll authorization forms

City Council establishes the salary range for all employees of the City and a Personnel Appointment Form is used to document the payroll information. The form identifies the annual salary, hourly rate, and budget account number and is approved by the Department Director, Human Resources Director, Finance Director, and Mayor. Once approved, the information is entered in the ADP payroll system by the Human Services Director.

During a review of 40 employees selected for testing, we noted 11 instances in which an approved payroll authorization form could not be located, 3 instances in which an approved timecard could not be located, and one instance in which the salary change form verifying the approved rate of pay during 2011 could not be located. While all the salaries were within the salary range established by Council we were not able to verify the amount paid agreed to the amount authorized. This may result in employees being compensated in excess of the approved amount.

We recommend that documentation supporting payroll information be maintained by the payroll department or in the employee's personnel file.

2011-04 – Material noncompliance

Ohio Revised Code Section 5705.10 states that money that is paid into a fund must be used only for the purposes for which such fund has been established. As a result, a negative fund balance indicates that money from one fund was used to cover the expenses of another fund.

The following funds had deficit cash balances at December 31, 2011:

Nonmajor Funds:

Older Americans	\$ 585,153
Courts Community Service	3,190
Domestic Violence	105,198
D.A.R.E.	127
Victims of Crimes Act	44,923
JAG Police	6,179
Neighborhood Support Program	65,897
Community Development	23,047

Enterprise Funds:

Water	339,411
Sewer	528,555

City of East Cleveland, Ohio

Schedule of Findings (continued)

For the Year Ended December 31, 2011

2. Findings Related to the Financial Statements Required to be Reported in Accordance with GAGAS (continued)

2011-05 – Material noncompliance

Per ORC Section 5705.39, the total appropriations from each fund should not exceed the total estimated revenues. No appropriation measure is to become effective until the County Auditor files a certificate that the total appropriations from each fund do not exceed the total official estimate or amended official estimate.

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

	<u>Original Estimated Resources Plus Carryover Balances</u>	<u>Original Appropriations</u>	<u>Excess</u>
Governmental Funds			
<i>Special Revenue Funds:</i>			
Older Americans	\$ (129,475)	\$ 18,568	\$ 148,043
Community Development	1,360,431	4,858,738	3,498,307
Courts Community Service	(3,190)	-	3,190
Special Purpose Grant (HUD)	9,004	341,744	332,740
Domestic Violence	(32,847)	38,315	71,162
Victims of Crimes Act	30,965	69,797	38,832
Community Cops	(696,198)	2,630,870	3,327,068
JAG Police	(6,179)	-	6,179
Cops Universal	-	200,000	200,000
Enterprise Funds:			
Water	17,438	119,376	101,938
Sewer	(151,400)	260,251	411,651

The following funds had final appropriations in excess of estimated resources plus carryover balances in violation of Section 5705.39 of the ORC:

	<u>Final Estimated Resources Plus Carryover Balances</u>	<u>Final Appropriations</u>	<u>Excess</u>
Governmental Funds			
<i>Special Revenue Funds:</i>			
Older Americans	\$ (129,475)	\$ 18,568	\$ 148,043
FEMA Grant	2,628	44,749	42,121
Community Development	1,360,431	4,858,738	3,498,307
Courts Community Service	(3,190)	-	3,190
Special Purpose Grant (HUD)	9,004	341,744	332,740
Domestic Violence	(32,847)	38,315	71,162
Victims of Crimes Act	30,965	69,797	38,832

City of East Cleveland, Ohio

Schedule of Findings (continued)

For the Year Ended December 31, 2011

**2. Findings Related to the Financial Statements
Required to be Reported in Accordance with GAGAS (continued)**

2011-05 – Material noncompliance (continued)

	Final Estimated Resources Plus <u>Carryover Balances</u>		Final <u>Appropriations</u>		<u>Excess</u>
Governmental Funds					
<i>Special Revenue Funds (continued):</i>					
Community Cops	\$ (696,198)		\$ 2,630,870		\$ 3,327,068
JAG Police	(6,179)		-		6,179
Cops Universal	-		200,000		200,000
Enterprise Funds					
Water	17,438		119,376		101,938
Sewer	(151,400)		260,251		411,651

2011-06 – Material noncompliance

Ohio Revised Code 5705.41(B) states that no subdivision or taxing unit is to expend money unless it has been appropriated.

At December 31, 2011, the City had expenditures plus encumbrances in excess of appropriations as follows:

<u>Fund/Function</u>	<u>Appropriations</u>		<u>Expenditures Plus Encumbrances</u>		<u>Excess</u>
General Fund:					
General Government					
Personal Services	\$ 11,357		\$ 12,181		\$ 824
Contractual Services	4,720		6,728		2,008
Human Resources					
Personal Services	169,340		172,544		3,204
Security of Persons and Property:					
Police Department:					
Personal Services	4,801,516		5,410,881		609,365
Contractual Services	36,296		149,810		113,514
Fire Department:					
Personal Services	3,696,898		3,727,589		30,691
Materials and Supplies	335		5,828		5,493
Capital Outlay	-		21		21

City of East Cleveland, Ohio

Schedule of Findings (continued)

For the Year Ended December 31, 2011

**2. Findings Related to the Financial Statements
Required to be Reported in Accordance with GAGAS (continued)**

2011-06 – Material noncompliance (continued)

<u>Fund/Function</u>	<u>Appropriations</u>	<u>Expenditures Plus Encumbrances</u>	<u>Excess</u>
Special Revenue Funds:			
Older Americans Fund:			
Community Environment:			
Personal Services	\$ 17,902	\$ 272,064	\$ 254,162
Materials and Supplies	632	78,325	77,693
Contractual Services	34	8,777	8,743
Other Expenditures	-	4,015	4,015
Alcohol & Drug Treatment Fund:			
Security of Persons and Property:			
Other Expenditures	-	1,118	1,118
DARE Fund:			
Security of Persons and Property:			
Personal Services	-	127	127
Computer Legalize Fees Fund:			
General Government:			
Other Expenditures	27,283	42,241	14,958
Engineering and Building Fund:			
General Government:			
Contractual Services	-	2,874	2,874
Victims of Crime Act Fund:			
Community Environment:			
Contractual Services	21,347	26,899	5,552
Capital Projects Funds:			
Permanent Improvement Fund:			
Contractual Services	100,936	221,514	120,578
Enterprise Funds:			
Sewer Fund:			
Personal Services	23,403	113,112	89,709

City of East Cleveland, Ohio

Schedule of Findings (continued)

For the Year Ended December 31, 2011

2. Findings Related to the Financial Statements Required to be Reported in Accordance with GAGAS (continued)

2011-07 – Material noncompliance

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, 2011, the following funds had appropriations which exceeded actual receipts plus unencumbered cash:

<u>Fund Name</u>	<u>Actual Receipts Plus Unencumbered Cash</u>	<u>Final Appropriations</u>	<u>Variance</u>
Governmental Funds:			
General	\$ 16,971,720	\$ 19,105,916	\$ (2,134,196)
Community Development	(1,244,372)	4,858,738	(6,103,110)
Older Americans	(464,167)	18,568	(483,735)
FEMA Grant	2,628	44,749	(42,121)
Domestic Violence	(101,176)	38,315	(139,491)
NSP-1	700,359	2,630,870	(1,930,511)
COPS Universal	-	200,000	(200,000)
Courts Community Service	(3,190)	-	(3,190)
Special Purpose Grant (HUD)	4,504	341,744	(337,240)
DARE	(127)	-	(127)
Victims of Crime Act	16,816	69,797	(52,981)
JAG Police	(6,179)	-	(6,179)
Permanent Improvement	159,767	444,936	(285,169)
Enterprise Funds:			
Water	(336,285)	119,376	(455,661)
Sewer	(259,448)	260,251	(519,699)

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.

City of East Cleveland, Ohio

Schedule of Findings (continued)

For the Year Ended December 31, 2011

2. Findings Related to the Financial Statements Required to be Reported in Accordance with GAGAS (continued)

2011-08 – Material noncompliance

Ohio Revised Code Section 5705.41(D)(1) prohibits a subdivision or taxing authority 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 in the process of collection to the credit of an appropriate fund free from any previous encumbrance.

There are several exceptions to the standard requirement 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.

"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 that he 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 taxing authority can authorize the drawing of a warrant for the payment of the amount due. The taxing authority has 30 days from the receipt of the "then and now" certificate to approve payment by ordinance or resolution. 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 taxing authority.

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 board against any specific line item account over a period not running beyond 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 particular line item appropriation.

Super Blanket Certificate – The taxing authority 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.

City of East Cleveland, Ohio

Schedule of Findings (continued)

For the Year Ended December 31, 2011

2. Findings Related to the Financial Statements Required to be Reported in Accordance with GAGAS (continued)

2011-08 – Material noncompliance (continued)

During a test of 40 transactions, we noted 14 instances 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.

3. Findings for Federal Awards

Finding Number	2011-09
CFDA Title and Number	Community Development Block Grants/State's Program and Non-Entitlement Grants in Hawaii (State Administered Small Cities Program), CFDA # 14.228
Federal Award Year	2011
Federal Agency	U.S. Department of Housing and Urban Development
Pass-Through Agency	Ohio Department of Development

Cash Management

Office of Housing and Community Partnerships (OHCP) Management Rules and Regulations, section (A)(3)(f), states that grantees must develop a cash management system to ensure compliance with the Fifteen-Day Rule relating to prompt disbursement of funds. This rule states that funds drawn down should be limited to amounts that will enable the grantee to disburse the funds on hand to a balance of less than \$5,000 within 15 days of receipt of any funds. Lump-sum drawdowns are not permitted. Escrow accounts are permitted only in the case of rehabilitation of private property. For the purpose of the Fifteen-Day Rule only, funds deposited into an escrow account will considered expended, but it should be noted that funds may only be in an escrow account for 20 days.

During our testing over the City's cash draws, we noted that the funds that were drawn down were not disbursed to a balance of less than \$5,000 within 15 days of receipt of those funds. However, it should be noted that the expenditures made with those funds were for allowable costs.

We recommend the City implement procedures to ensure that all funds drawn down comply with the 15 day requirement on the disbursement of funds.

Official's Response

Currently the City disburses CDBG funds drawn down within the 15-day requirement.

City of East Cleveland, Ohio

Schedule of Findings (continued)

For the Year Ended December 31, 2011

Finding Number	2011-10
-----------------------	---------

Material Noncompliance

OMB Circular A-133 Section 300(e) provides that the auditee is responsible for appropriate submission of the audit reports to the appropriate government officials and organizations. OMB Circular A-133 Section 320(a) further provides that the audit report and data collection form must be submitted within the earlier of 30 days after the reports are received from the auditors, or nine months after the end of the audit period, unless a longer period is agreed upon in advance by the cognizant or oversight agency. It was noted that the City did not submit the required documentation within the time period discussed above.

We recommend that the City submit the required information by the submission deadline established by OMB Circular A-133 Section 300(e).

Management's Response:

The City is in the process of getting caught up by December 2013.

City of East Cleveland

Schedule of Prior Audit Findings

December 31, 2011

Finding No.	Finding Summary	Fully Corrected	Explanation
2010-001	<p><i>Financial Reporting – Material Weakness</i></p> <p>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.</p> <p>During a review of the report the following adjustments were identified:</p> <ul style="list-style-type: none"> • Increases to intergovernmental revenues and capital outlay expenditures that were not reported properly in the accounting system. • Reclassifying EMS receipts from the General Fund to the EMS Fund. • Reclassifying Homestead and rollback monies from property taxes to inter-governmental revenue. • Reclassification of specific salary and benefit expenses to be recorded to the proper funds. <p>Official’s Response: Management has developed appropriate monitoring procedures to ensure that the financial statements are complete and accurate.</p>	No	The City had similar audit adjustments in the current year.
2010-002	<p><i>Internal Control – Material Weakness</i></p> <p>Back-up procedures for the City’s CMI accounting system were not properly performed; therefore, prior period data was not retained and the detailed accounting records supporting the encumbrances were unavailable for 2010 and there was no support for the financial statement amounts.</p>	Yes	Corrected

City of East Cleveland

Schedule of Prior Audit Findings (continued)

December 31, 2011

Finding No.	Finding Summary	Fully Corrected	Explanation
2010-003	<p><i>Budgetary Control – Material Noncompliance</i></p> <p>Ohio Revised Code Section 5705.39 – the total appropriation from each fund should not exceed the total estimated revenue. No appropriation measure is to become effective until the County Auditor files a certificate that the total appropriations from each fund do not exceed the total official estimate or amended official estimate.</p> <p>At December 31, 2010, the City had numerous funds with original and final appropriation in excess of estimated resources plus carryover balances.</p>	No	The City has material noncompliance again in 2011.
2010-004	<p><i>Budgetary Control – Material Noncompliance</i></p> <p>The following funds had deficit cash balances at December 31, 2010:</p> <p>Governmental Funds:</p> <ul style="list-style-type: none"> Older Americans fund Courts Community Service fund Domestic Violence fund Victims of Crimes Act fund Community Cops JAG Police Community Development fund <p>Enterprise Funds:</p> <ul style="list-style-type: none"> Water fund Sewer fund 	No	The City has material noncompliance again in 2011.
2010-005	<p><i>Budgetary Control – Material Noncompliance</i></p> <p>The Ohio Rev. Code Section 5705.41(B) prohibits a subdivision from making an expenditure unless it has been appropriated as provided in Chapter 5705 of the Revised Code.</p> <p>At December 31, 2010, the City had numerous funds with expenditures plus encumbrances in excess of appropriations.</p>	No	The City has material noncompliance again in 2011.

City of East Cleveland

Schedule of Prior Audit Findings (continued)

December 31, 2011

Finding No.	Finding Summary	Fully Corrected	Explanation
2010-006	<p><i>Budgetary Control – Material Noncompliance</i></p> <p>The Ohio Revised Code Section 5705.36(A)(4) requires obtaining a reduced amended certificate if the amount of a deficiency in receipts will reduce available resources below the current level of appropriation. The total appropriations made during a fiscal year from any fund must not exceed 1) the amount contained in the certificate of estimated resources; 2) the most recently amended certificate of estimated resources which was certified prior to making the appropriation or supplemental appropriation; and 3) actual resources which is the beginning unencumbered fund balance plus actual receipts.</p> <p>At December 31, 2010, the City had several funds where appropriations materially exceeded actual resources.</p>	No	The City has material noncompliance again in 2011.
2010-007	<p><i>Internal Control – Material Noncompliance</i></p> <p>Several instances were noted in which the transaction was not certified by the fiscal officer at the time of the commitment, contrary to Ohio Rev. Code Section 5705.41(D)(1).</p>	No	The City has material noncompliance again in 2011.
2010-008	<p><i>Reserve Requirement Finding – Material Weakness, Material Noncompliance, Earmarking</i></p> <p>24 CFR Part 92.300 requires that within 24 months after HUD notifies a participating jurisdiction of HUD’s execution of the HOME Investment Partnerships Agreement, the participating jurisdiction must reserve no less than 15% of the HOME allocation for investment only in housing to be developed, sponsored, or owned a Community Housing Development Organization (CHDO).</p> <p>During 2010, the City had not reserved 15% of the 2010 HOME allocation for investment in a Community Housing Development Organization.</p>	Yes	Corrected.

City of East Cleveland

Schedule of Prior Audit Findings (continued)

December 31, 2011

Finding No.	Finding Summary	Fully Corrected	Explanation
2010-009	<p><i>Cash Management – Material Weakness and Material Noncompliance</i></p> <p>24 CFR 85.21 provides the federal awarding agency regulations, and the terms and conditions of the award prescribe the requirements for cash management.</p> <p>During 2010, the City erroneously posted two receipts to the Community Development Block Grant (CDBG).</p>	Yes	Corrected.
2010-010	<p><i>Cash Management – Material Weakness, Material Noncompliance and Questioned Cost Finding</i></p> <p>Office of Housing and Community Partnerships (OHCP) Management Rules and Regulations, section (A)(3)(f), states that grantees must develop a cash management system to ensure compliance with the Fifteen-Day Rule relating to prompt disbursement of funds. This rule states that funds drawn down should be limited to amounts that will enable the grantee to disburse the funds on hand to a balance of less than \$5,000 within 15 days of receipt of any funds. Lump-sum drawdowns are not permitted.</p> <p>During 2010, the City had drawn down a material excess of funds than actual expenditures incurred.</p>	Yes	Corrected.

City of East Cleveland

Schedule of Prior Audit Findings (continued)

December 31, 2011

Finding No.	Finding Summary	Fully Corrected	Explanation
2010-011	<p><i>Tracking ARRA Funding – Material Weakness, Material Noncompliance and Special Testing and Provisions Finding</i></p> <p>2 CFR section 176.210(a) and (b), (a) states that recipients of stimulus monies are required to maintain records that identify adequately the source and application of Recovery Act funds in order to maximize the transparency and accountability of funds authorized under the American Recovery and Reinvestment Act (ARRA) of 2009.</p> <p>During 2010, the City’s Recovery Act expenditures were not accounted for in separate expense line items than Non-Recovery Act expenditures to adequately identify Recovery Act expenditures from Non-Recovery Act expenditures.</p>	Yes	Corrected.

City of East Cleveland

14340 Euclid Avenue
East Cleveland, OH 44112
(216) 681-2319

Response to Findings Associated With Audit Conducted In Accordance With *Government Auditing Standards* For The Year Ended December 31, 2011

Finding Number	Planned Correction Action	Anticipated Completion Date	Responsible Contact Person
2011-01	Management will create and implement written policies and procedures for controls over year-end financial reporting to help ensure the information accurately reflects the activity of the City thereby increasing the reliability of the financial data at year-end.	N/A	Irene Crowell, Finance Director
2011-02	Management will reconcile the amounts reported in the City's computer system in order to accurately report the amount of capital assets and accumulated depreciation at year-end.	N/A	Irene Crowell, Finance Director
2011-03	Management will maintain supporting payroll documentation by the payroll department or in the employee's personnel file.	N/A	Irene Crowell, Finance Director
2011-04	Management will monitor the timing of receipts, and advance monies from the General Fund when available to eliminate negative cash fund balances.	N/A	Irene Crowell, Finance Director
2011-05	Management will spend within available resources and approved appropriations.	N/A	Irene Crowell, Finance Director
2011-06	Management will compare appropriations with expenditures plus encumbrances on a monthly basis to ensure appropriations are not exceeded.	N/A	Irene Crowell, Finance Director

City of East Cleveland

**14340 Euclid Avenue
East Cleveland, OH 44112
(216) 681-2319**

**Response to Findings Associated With
Audit Conducted In Accordance With
Government Auditing Standards
For The Year Ended December 31, 2011 (continued)**

Finding Number	Planned Correction Action	Anticipated Completion Date	Responsible Contact Person
2011-07	Management will compare actual receipts with the Certificate of Estimated Resources and appropriations on a monthly basis, amending the certificate and adjusting the appropriations when necessary.	N/A	Irene Crowell, Finance Director
2011-08	Management will improve controls over disbursements and to help reduce the possibility of the City's funds exceeding budgetary spending limitations and consider the use of "Then and Now" certification.	N/A	Irene Crowell, Finance Director
2011-09	The City currently disburses CDBG funds drawn down within the 15-day requirement.	N/A	Irene Crowell, Finance Director
2011-10	The City did not submit the required OMB Circular A-133 documentation within the earlier of 30 days after the reports are received from the auditors, or nine months after the end of the audit period.	N/A	Irene Crowell, Finance Director

This page intentionally left blank.



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
DECEMBER 19, 2013**