

**CITY OF EAST CLEVELAND  
CUYAHOGA COUNTY**

**SINGLE AUDIT**

**FOR THE YEAR ENDED DECEMBER 31, 1998**

City of East Cleveland

Table of Contents

Title	Page
Report of Independent Accountants .....	1
General Purpose Financial Statements .....	2 - 15
Notes to the General Purpose Financial Statements .....	16 - 38
Schedule of Federal Awards Expenditures .....	39
Notes to the Schedule of Federal Awards Expenditures .....	40
Report on Compliance and on Internal Control Required by <i>Government Auditing Standards</i> ...	41 - 42
Report on Compliance with Requirements Applicable to Each Major Federal Program and Internal Control Over Compliance in Accordance with <i>OMB Circular A-133</i> .....	43 - 44
Schedule of Findings and Questioned Cost .....	45 - 51
Schedule of Prior Audit Findings .....	52
Data Collection Form .....	53 - 57



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**REPORT OF INDEPENDENT ACCOUNTANTS**

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

We have audited the accompanying general-purpose financial statements of the City of East Cleveland, Cuyahoga County, Ohio, (the City) as of and for the year ended December 31, 1998, as listed in the table of contents. These general-purpose financial statements are the responsibility of the City's management. Our responsibility is to express an opinion on these general-purpose financial statements based on our audit.

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

In our opinion, the general-purpose financial statements referred to above present fairly, in all material respects, the financial position of the City of East Cleveland as of December 31, 1998, and the results of its operations and the cash flows of its proprietary fund types for the year then ended in conformity with generally accepted accounting principles.

As described in Note 3 to the general-purpose financial statements, in 1998 the City changed its method of accounting for investments and for the deferred compensation plan.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 19, 1999 on our consideration of the City's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants.

Our audit was performed for the purpose of forming an opinion on the general-purpose financial statements of the City, taken as a whole. The accompanying schedule of federal awards expenditures is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the general-purpose financial statements. Such information has been subjected to the auditing procedures applied in the audit of the general-purpose financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the general-purpose financial statements taken as a whole.

  
JIM PETRO  
Auditor of State

November 19, 1999

**City of East Cleveland, Ohio**  
*Combined Balance Sheet*  
*All Fund Types and Account Groups*  
*December 31, 1998*

	Governmental Fund		
	General	Special Revenue	Debt Service
<b>Assets and Other Debits</b>			
<b>Assets</b>			
Equity in Pooled Cash and Cash Equivalents	\$2,486,366	\$984,850	\$18,571
Cash and Cash Equivalents in Segregated Accounts	0	95,060	0
Cash and Cash Equivalents with Fiscal and Escrow Agents	0	0	3,282
Receivables:			
Taxes	2,153,655	105,336	0
Accounts	233,180	1,135	0
Interfund	124,799	0	0
Due from Other Funds	29,731	29,429	0
Intergovernmental	52,964	123,825	0
Loans	0	50,139	0
Materials and Supplies Inventory	46,372	0	0
Fixed Assets (Net, where applicable, of Accumulated Depreciation)	0	0	0
<b>Other Debits</b>			
Amount Available in Debt Service Fund for Retirement of General Obligation Bonds	0	0	0
Amount to be Provided from General Government Resources	0	0	0
<b>Total Assets and Other Debits</b>	<b>\$5,127,067</b>	<b>\$1,389,774</b>	<b>\$21,853</b>

Types	Proprietary	Fiduciary	Account Groups		Totals (Memorandum Only)
	Fund Type	Fund Type	General Fixed Assets	General Long-Term Obligations	
Capital Projects	Enterprise	Agency			
\$984,478	\$798,166	\$614,078	\$0	\$0	\$5,886,509
0	0	335,547	0	0	430,607
0	0	0	0	0	3,282
351,176	0	0	0	0	2,610,167
0	1,868,748	872	0	0	2,103,935
0	0	0	0	0	124,799
0	0	0	0	0	59,160
1,750	0	0	0	0	178,539
0	0	0	0	0	50,139
0	20,208	0	0	0	66,580
0	7,930,968	0	8,960,861	0	16,891,829
0	0	0	0	21,853	21,853
0	0	0	0	3,971,536	3,971,536
<u>\$1,337,404</u>	<u>\$10,618,090</u>	<u>\$950,497</u>	<u>\$8,960,861</u>	<u>\$3,993,389</u>	<u>\$32,398,935</u>

(continued)

**City of East Cleveland, Ohio**  
*Combined Balance Sheet*  
*All Fund Types and Account Groups (continued)*  
*December 31, 1998*

	Governmental Fund		
	General	Special Revenue	Debt Service
<b>Liabilities, Fund Equity and Other Credits</b>			
<b>Liabilities</b>			
Accounts Payable	\$357,147	\$34,378	\$0
Interfund Payable	0	119,567	0
Accrued Wages	218,882	33,262	0
Compensated Absences Payable	60,868	4,755	0
Claims Payable	64,384	17,494	0
Due to Other Funds	0	59,160	0
Intergovernmental Payable	128,194	24,787	0
Deferred Revenue	1,773,415	105,336	0
Undistributed Monies	0	0	0
Deposits Held and Due to Others	0	0	0
Capital Leases Payable	0	0	0
OPWC Loans Payable	0	0	0
Contingent Liabilities	0	0	0
Police and Fire Liability	0	0	0
<b>Total Liabilities</b>	<b>2,602,890</b>	<b>398,739</b>	<b>0</b>
<b>Fund Equity and Other Credits</b>			
Investment in General Fixed Assets	0	0	0
Contributed Capital	0	0	0
Retained Earnings:			
Unreserved	0	0	0
Fund Balance:			
Reserved for Encumbrances	192,828	272,929	0
Reserved for Inventory	46,372	0	0
Reserved for Loans	0	50,139	0
Unreserved, Undesignated	2,284,977	667,967	21,853
<b>Total Fund Equity and Other Credits</b>	<b>2,524,177</b>	<b>991,035</b>	<b>21,853</b>
<b>Total Liabilities, Fund Equity and Other Credits</b>	<b>\$5,127,067</b>	<b>\$1,389,774</b>	<b>\$21,853</b>

See accompanying notes to the general purpose financial statements

Types	Proprietary Fund Type	Fiduciary Fund Types	Account Groups		Totals (Memorandum Only)
			General Fixed Assets	General Long-Term Obligations	
Capital Projects	Enterprise	Agency			
\$14,218	\$617,615	\$0	\$0	\$0	\$1,023,358
5,232	0	0	0	0	124,799
0	15,477	0	0	0	267,621
0	22,732	0	0	1,191,089	1,279,444
0	3,116	0	0	0	84,994
0	0	0	0	0	59,160
0	18,032	4,734	0	350,318	526,065
351,176	0	0	0	0	2,229,927
0	0	289,394	0	0	289,394
0	0	656,369	0	0	656,369
0	0	0	0	693,993	693,993
0	662,108	0	0	8,178	670,286
0	0	0	0	25,000	25,000
0	0	0	0	1,724,811	1,724,811
<u>370,626</u>	<u>1,339,080</u>	<u>950,497</u>	<u>0</u>	<u>3,993,389</u>	<u>9,655,221</u>
0	0	0	8,960,861	0	8,960,861
0	7,832,733	0	0	0	7,832,733
0	1,446,277	0	0	0	1,446,277
195,340	0	0	0	0	661,097
0	0	0	0	0	46,372
0	0	0	0	0	50,139
<u>771,438</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>3,746,235</u>
<u>966,778</u>	<u>9,279,010</u>	<u>0</u>	<u>8,960,861</u>	<u>0</u>	<u>22,743,714</u>
<u>\$1,337,404</u>	<u>\$10,618,090</u>	<u>\$950,497</u>	<u>\$8,960,861</u>	<u>\$3,993,389</u>	<u>\$32,398,935</u>

**City of East Cleveland, Ohio**  
*Combined Statement of Revenues, Expenditures  
and Changes in Fund Balances  
All Governmental Fund Types  
For the Year Ended December 31, 1998*

	Governmental Fund	
	General	Special Revenue
<b>Revenues</b>		
Municipal Income Tax	\$6,886,919	\$0
Property and Other Taxes	1,601,284	95,125
Charges for Services	251,797	128,116
Licenses and Permits	814,856	77,817
Fines and Forfeitures	582,404	49,858
Intergovernmental	3,785,198	2,612,572
Special Assessments	376,315	0
Interest	189,201	0
Other	327,445	156,166
<i>Total Revenues</i>	<u>14,815,419</u>	<u>3,119,654</u>
<b>Expenditures</b>		
Current:		
General Government	3,996,838	1,058,944
Security of Persons and Property	7,489,637	435,559
Transportation	395,607	515,944
Community Environment	225,368	926,607
Basic Utility Services	1,206,832	0
Leisure Time Activities	277,781	0
Capital Outlay	44,459	177,965
Debt Service:		
Principal Retirement	241,510	0
Interest and Fiscal Charges	107,830	0
<i>Total Expenditures</i>	<u>13,985,862</u>	<u>3,115,019</u>
<i>Excess of Revenues Over (Under) Expenditures</i>	<u>829,557</u>	<u>4,635</u>
<b>Other Financing Sources (Uses)</b>		
Inception of Capital Lease	595,158	0
Operating Transfers In	0	223,770
Operating Transfers Out	(1,001,870)	(515)
<i>Total Other Sources (Uses)</i>	<u>(406,712)</u>	<u>223,255</u>
<i>Excess of Revenues and Other Financing Sources Over (Under) Expenditures and Other Financing Uses</i>	<u>422,845</u>	<u>227,890</u>
<i>Fund Balances Beginning of Year</i>	<u>2,101,332</u>	<u>763,145</u>
<i>Fund Balances End of Year</i>	<u>\$2,524,177</u>	<u>\$991,035</u>

See accompanying notes to the general purpose financial statements



Types		Totals
Debt Service	Capital Projects	(Memorandum Only)
\$0	\$0	\$6,886,919
0	317,086	2,013,495
0	0	379,913
0	0	892,673
0	0	632,262
0	89,300	6,487,070
0	0	376,315
200	31,854	221,255
0	50,407	534,018
<u>200</u>	<u>488,647</u>	<u>18,423,920</u>
0	0	5,055,782
0	0	7,925,196
0	0	911,551
0	0	1,151,975
0	0	1,206,832
0	0	277,781
0	353,408	575,832
511	0	242,021
3,469	0	111,299
<u>3,980</u>	<u>353,408</u>	<u>17,458,269</u>
<u>(3,780)</u>	<u>135,239</u>	<u>965,651</u>
0	0	595,158
515	178,100	402,385
0	0	(1,002,385)
<u>515</u>	<u>178,100</u>	<u>(4,842)</u>
<u>(3,265)</u>	<u>313,339</u>	<u>960,809</u>
<u>25,118</u>	<u>653,439</u>	<u>3,543,034</u>
<u>\$21,853</u>	<u>\$966,778</u>	<u>\$4,503,843</u>

**City of East Cleveland, Ohio**  
*Combined Statement of Revenues, Expenditures and  
 Changes in Fund Balances - Budget (Non-GAAP Basis) and Actual  
 All Governmental Fund Types  
 For the Year Ended December 31, 1998*

	General Fund		
	Revised Budget	Actual	Variance Favorable (Unfavorable)
<b>Revenues</b>			
Municipal Income Tax	\$7,057,096	\$7,057,096	\$0
Property and Other Taxes	1,601,284	1,601,284	0
Charges for Services	35,598	35,598	0
Licenses and Permits	814,858	814,858	0
Fines and Forfeitures	582,406	582,406	0
Intergovernmental	3,945,446	3,945,446	0
Special Assessments	376,317	376,317	0
Interest	160,419	200,250	39,831
Other	363,587	325,585	(38,002)
<i>Total Revenues</i>	<u>14,937,011</u>	<u>14,938,840</u>	<u>1,829</u>
<b>Expenditures</b>			
<i>Current:</i>			
General Government	4,236,897	4,236,395	502
Security of Persons and Property	7,201,582	7,201,582	0
Transportation	351,532	351,532	0
Community Environment	233,594	233,594	0
Basic Utility Services	1,303,735	1,303,735	0
Leisure Time Activities	299,181	299,181	0
Capital Outlay	0	0	0
<i>Debt Service:</i>			
Principal Retirement	0	0	0
Interest and Fiscal Charges	0	0	0
<i>Total Expenditures</i>	<u>13,626,521</u>	<u>13,626,019</u>	<u>502</u>
<i>Excess of Revenues Over (Under) Expenditures</i>	<u>1,310,490</u>	<u>1,312,821</u>	<u>2,331</u>
<b>Other Financing Sources (Uses)</b>			
Operating Transfers In	0	0	0
Operating Transfers Out	(1,001,870)	(1,001,870)	0
<i>Total Other Sources (Uses)</i>	<u>(1,001,870)</u>	<u>(1,001,870)</u>	<u>0</u>
<i>Excess of Revenues and Other Financing Sources Over (Under) Expenditures and Other Financing Uses</i>	308,620	310,951	2,331
<i>Fund Balances Beginning of Year</i>	1,626,076	1,626,076	0
Unexpended Prior Year Encumbrances	262,844	262,844	0
<i>Fund Balances End of Year</i>	<u>\$2,197,540</u>	<u>\$2,199,871</u>	<u>\$2,331</u>

Special Revenue Funds			Debt Service Funds		
Revised Budget	Actual	Variance Favorable (Unfavorable)	Revised Budget	Actual	Variance Favorable (Unfavorable)
\$0	\$0	\$0	\$0	\$0	\$0
95,124	95,125	1	0	0	0
34,397	34,397	0	0	0	0
77,817	77,817	0	0	0	0
27,493	27,493	0	0	0	0
5,369,064	2,576,599	(2,792,465)	0	0	0
0	0	0	0	0	0
0	0	0	200	200	0
137,995	127,529	(10,466)	0	0	0
<u>5,741,890</u>	<u>2,938,960</u>	<u>(2,802,930)</u>	<u>200</u>	<u>200</u>	<u>0</u>
1,356,168	1,356,168	0	0	0	0
473,247	473,247	0	0	0	0
529,490	529,492	(2)	0	0	0
953,455	953,455	0	0	0	0
0	0	0	0	0	0
0	0	0	0	0	0
0	0	0	0	0	0
0	0	0	511	511	0
0	0	0	3,469	3,469	0
<u>3,312,360</u>	<u>3,312,362</u>	<u>(2)</u>	<u>3,980</u>	<u>3,980</u>	<u>0</u>
<u>2,429,530</u>	<u>(373,402)</u>	<u>(2,802,932)</u>	<u>(3,780)</u>	<u>(3,780)</u>	<u>0</u>
275,746	223,770	(51,976)	515	515	0
(515)	(515)	0	0	0	0
<u>275,231</u>	<u>223,255</u>	<u>(51,976)</u>	<u>515</u>	<u>515</u>	<u>0</u>
2,704,761	(150,147)	(2,854,908)	(3,265)	(3,265)	0
52,578	52,578	0	21,836	21,836	0
622,102	622,102	0	0	0	0
<u>\$3,379,441</u>	<u>\$524,533</u>	<u>(\$2,854,908)</u>	<u>\$18,571</u>	<u>\$18,571</u>	<u>\$0</u>

(continued)

**City of East Cleveland, Ohio**  
*Combined Statement of Revenues, Expenditures and  
Changes in Fund Balances - Budget (Non-GAAP Basis) and Actual  
All Governmental Fund Types (continued)  
For the Year Ended December 31, 1998*

	Capital Projects Funds		
	Revised Budget	Actual	Variance Favorable (Unfavorable)
<b>Revenues</b>			
Municipal Income Tax	\$0	\$0	\$0
Property and Other Taxes	317,086	317,086	0
Charges for Services	0	0	0
Licenses and Permits	0	0	0
Fines and Forfeitures	0	0	0
Intergovernmental	160,143	114,446	(45,697)
Special Assessments	0	0	0
Interest	31,854	31,854	0
Other	50,407	50,407	0
<i>Total Revenues</i>	<u>559,490</u>	<u>513,793</u>	<u>(45,697)</u>
<b>Expenditures</b>			
<i>Current:</i>			
General Government	0	0	0
Security of Persons and Property	0	0	0
Transportation	0	0	0
Community Environment	0	0	0
Basic Utility Services	0	0	0
Leisure Time Activities	0	0	0
Capital Outlay	563,275	563,275	0
<i>Debt Service:</i>			
Principal Retirement	0	0	0
Interest and Fiscal Charges	0	0	0
<i>Total Expenditures</i>	<u>563,275</u>	<u>563,275</u>	<u>0</u>
<i>Excess of Revenues Over (Under) Expenditures</i>	<u>(3,785)</u>	<u>(49,482)</u>	<u>(45,697)</u>
<b>Other Financing Sources (Uses)</b>			
Operating Transfers In	178,100	178,100	0
Operating Transfers Out	0	0	0
<i>Total Other Sources (Uses)</i>	<u>178,100</u>	<u>178,100</u>	<u>0</u>
<i>Excess of Revenues and Other Financing Sources Over (Under) Expenditures and Other Financing Uses</i>	<u>174,315</u>	<u>128,618</u>	<u>(45,697)</u>
<i>Fund Balances Beginning of Year</i>	586,066	586,066	0
Unexpended Prior Year Encumbrances	55,004	55,004	0
<i>Fund Balances End of Year</i>	<u>\$815,385</u>	<u>\$769,688</u>	<u>(\$45,697)</u>

See accompanying notes to the general purpose financial statements

Totals (Memorandum Only)

Revised Budget	Actual	Variance Favorable (Unfavorable)
\$7,057,096	\$7,057,096	\$0
2,013,494	2,013,495	1
69,995	69,995	0
892,675	892,675	0
609,899	609,899	0
9,474,653	6,636,491	(2,838,162)
376,317	376,317	0
192,473	232,304	39,831
551,989	503,521	(48,468)
<u>21,238,591</u>	<u>18,391,793</u>	<u>(2,846,798)</u>
5,593,065	5,592,563	502
7,674,829	7,674,829	0
881,022	881,024	(2)
1,187,049	1,187,049	0
1,303,735	1,303,735	0
299,181	299,181	0
563,275	563,275	0
511	511	0
3,469	3,469	0
<u>17,506,136</u>	<u>17,505,636</u>	<u>500</u>
<u>3,732,455</u>	<u>886,157</u>	<u>(2,846,298)</u>
454,361	402,385	(51,976)
(1,002,385)	(1,002,385)	0
<u>(548,024)</u>	<u>(600,000)</u>	<u>(51,976)</u>
3,184,431	286,157	(2,898,274)
2,286,556	2,286,556	0
939,950	939,950	0
<u>\$6,410,937</u>	<u>\$3,512,663</u>	<u>(\$2,898,274)</u>

**City of East Cleveland, Ohio**  
*Combined Statement of Revenues,  
 Expenses and Changes in Fund Equity  
 Proprietary Fund Type  
 For the Year Ended December 31, 1998*

	Enterprise
<b>Operating Revenues</b>	
Charges for Services	\$5,940,046
Other	169,721
	<u>6,109,767</u>
<i>Total Operating Revenues</i>	
<b>Operating Expenses</b>	
Personal Services	630,522
Contractual Services	5,851,700
Materials and Supplies	774,733
Other	25,638
Depreciation	26,691
	<u>7,309,284</u>
<i>Total Operating Expenses</i>	
<i>Operating Loss</i>	(1,199,517)
<b>Non-Operating Revenues</b>	
Interest	43,652
	<u>43,652</u>
<i>Loss Before Operating Transfers</i>	(1,155,865)
Operating Transfers In	600,000
	<u>600,000</u>
<i>Net Loss</i>	(555,865)
<i>Retained Earnings Beginning of Year</i>	<u>2,002,142</u>
<i>Retained Earnings End of Year</i>	<u>1,446,277</u>
<i>Contributed Capital Beginning of Year</i>	7,823,317
Contributions During the Year:	
Intergovernmental	9,416
	<u>9,416</u>
<i>Contributed Capital End of Year</i>	<u>7,832,733</u>
<i>Total Fund Equity End of Year</i>	<u><u>\$9,279,010</u></u>

See accompanying notes to the general purpose financial statements

**City of East Cleveland, Ohio**  
*Combined Statement of Revenues, Expenses and  
 Changes in Fund Equity - Budget (Non-GAAP Basis) and Actual  
 Proprietary Fund Type  
 For the Year Ended December 31, 1998*

	Enterprise Funds		
	Revised Budget	Actual	Variance Favorable (Unfavorable)
<b>Revenues</b>			
Charges for Services	\$6,006,749	\$5,900,585	(\$106,164)
Interest	47,911	47,911	0
Other	169,721	169,721	0
<i>Total Revenues</i>	<u>6,224,381</u>	<u>6,118,217</u>	<u>(106,164)</u>
<b>Expenses</b>			
Personal Services	640,638	634,387	6,251
Materials and Supplies	222,450	183,190	39,260
Contractual Services	6,409,568	6,468,521	(58,953)
Other	41,262	30,143	11,119
Capital Outlay	17,265	14,945	2,320
Debt Service:			
Principal Retirement	39,438	39,438	0
<i>Total Expenses</i>	<u>7,370,621</u>	<u>7,370,624</u>	<u>(3)</u>
<i>Excess of Revenues Under Expenses</i>	(1,146,240)	(1,252,407)	(106,167)
Operating Transfers In	600,000	600,000	0
<i>Excess of Revenues Under Expenses and Operating Transfers</i>	(546,240)	(652,407)	(106,167)
<i>Fund Equity Beginning of Year</i>	1,369,092	1,369,092	0
Unexpended Prior Year Encumbrances	29,421	29,421	0
<i>Fund Equity End of Year</i>	<u>\$852,273</u>	<u>\$746,106</u>	<u>(\$106,167)</u>

See accompanying notes to the general purpose financial statements

**City of East Cleveland, Ohio**  
*Combined Statement of Cash Flows*  
*Proprietary Fund Type*  
*For the Year Ended December 31, 1998*

	<u>Enterprise</u>
<i><b>Increase (Decrease) in Cash and Cash Equivalents</b></i>	
<b>Cash Flows From Operating Activities</b>	
Cash Received From Customers	\$5,900,585
Cash Payments to Suppliers for Materials and Supplies	(169,769)
Cash Payments for Employee Services and Benefits	(634,387)
Cash Payments for Contractual Services	(6,434,387)
Other Operating Revenues	169,721
Other Operating Expenses	(25,638)
	<u>(1,193,875)</u>
<b>Cash Flows from Noncapital Financing Activities:</b>	
Transfers In	600,000
	<u>600,000</u>
<b>Cash Flows From Capital and Related Financing Activities</b>	
Acquisition of Capital Assets	(14,945)
Principal Paid on OWDA Loans	(39,438)
	<u>(54,383)</u>
<i>Net Cash Provided by Capital and Related Financing Activities</i>	<u>(54,383)</u>
<b>Cash Flows from Investing Activities</b>	
Interest	47,911
	<u>47,911</u>
<i>Net Decrease in Cash and Cash Equivalents</i>	(600,347)
<i>Cash and Cash Equivalents Beginning of Year</i>	1,398,513
<i>Cash and Cash Equivalents End of Year</i>	<u>\$798,166</u>
	(continued)



**City of East Cleveland, Ohio**  
*Combined Statement of Cash Flows*  
*Proprietary Fund Type (continued)*  
*For the Year Ended December 31, 1998*

	<u>Enterprise</u>
<b>Reconciliation of Operating Loss to Net Cash Used for Operating Activities</b>	
<i>Operating Loss</i>	<u>(\$1,199,517)</u>
<b>Adjustments to Reconcile Operating Loss to Net Cash Provided by Operating Activities:</b>	
Depreciation	26,691
(Increase)/Decrease in Assets:	
Accounts Receivable	(39,461)
Increase/(Decrease) in Liabilities:	
Accounts Payable	608,246
Contracts Payable	(584,095)
Accrued Wages	6,529
Claims Payable	(1,874)
Compensated Absences Payable	(10,437)
Intergovernmental Payable	43
<i>Total Adjustments</i>	<u>5,642</u>
<i>Net Cash Used for Operating Activities</i>	<u><u>(\$1,193,875)</u></u>

See accompanying notes to the general purpose financial statements

**City of East Cleveland, Ohio**  
*Notes To The General Purpose Financial Statements*  
*For the Year Ended December 31, 1998*

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

**A. Reporting Entity**

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

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

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

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

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

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

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

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

**City of East Cleveland, Ohio**  
*Notes To The General Purpose Financial Statements*  
*For the Year Ended December 31, 1998*

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

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

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

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

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

**Debt Service Fund** This fund is used to account for the accumulation of resources for, and the payment of, general long-term debt principal and interest.

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

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

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

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

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

**City of East Cleveland, Ohio**  
*Notes To The General Purpose Financial Statements*  
*For the Year Ended December 31, 1998*

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

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

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

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

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

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

The accounting and reporting treatment applied to a fund is determined by its measurement focus. All governmental fund types are accounted for using a flow of current financial resources measurement focus. With this measurement focus, only current assets and current liabilities are generally included on the balance sheet. Operating statements of these funds present increases (i.e., revenues and other financing sources) and decreases (i.e., expenditures and other financing uses) in net current assets.

All proprietary fund types are accounted for on a flow of economic resources measurement focus. With this measurement focus, all assets and all liabilities associated with the operation of these funds are included on the balance sheet. Fund equity (i.e., net total assets) is segregated into contributed capital and retained earnings components. Proprietary fund type operating statements present increases (e.g., revenues) and decreases (e.g., expenses) in net total assets.

Basis of accounting refers to when revenues and expenditures or expenses are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurements made.

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

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

**City of East Cleveland, Ohio**  
*Notes To The General Purpose Financial Statements*  
*For the Year Ended December 31, 1998*

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The City reports deferred revenues on its combined balance sheet. Deferred revenues arise when a potential revenue does not meet both the measurable and available criteria for recognition in the current period. In subsequent periods, when both revenue recognition criteria are met, the liability for deferred revenue is removed from the combined balance sheet and revenue is recognized. Current and delinquent property taxes measurable as of December 31, 1998, whose availability is indeterminate and which are not intended to finance current period obligations, have been recorded as a receivable and deferred revenue.

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

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

***B. Budgetary Data***

The budgetary process is prescribed by provisions of the Ohio Revised Code and entails the preparation of budgetary documents within an established timetable. The major documents prepared are the tax budget, the certificate of estimated resources and the appropriation ordinance, all of which are prepared on the budgetary basis of accounting. The certificate of estimated resources and the appropriations ordinance are subject to amendment throughout the year with the legal restriction that the appropriations cannot exceed estimated resources, as certified. All funds, other than agency funds, are legally required to be budgeted and appropriated.

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

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

***Estimated Resources*** The County Budget Commission determines if the budget substantiates a need to levy all or part of previously authorized taxes and reviews estimated revenue. The Commission certifies its actions to the City by September 1. As part of this certification, the City receives the official certificate of estimated resources, which states the projected revenue of each fund. Prior to December 31, the City must revise its budget so that the total contemplated expenditures from any fund during the ensuing fiscal year will not exceed the amount available as stated in the certificate of estimated resources. The revised budget then serves as the basis for the annual appropriations ordinance. On or about January 1, the certificate of estimated resources is amended to include unencumbered fund balances at December 31 of the preceding year. The certificate may be further amended during the year if the Finance Director determines, and the Budget Commission agrees, that an estimate needs to be either increased or decreased. The amounts reported on the budgetary statements reflect the amounts in the final amended official certificate of estimated resources issued during 1998.

**City of East Cleveland, Ohio**  
*Notes To The General Purpose Financial Statements*  
*For the Year Ended December 31, 1998*

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

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

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

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

Cash received by the City is deposited into several bank accounts. Monies from all funds, including the enterprise funds, are maintained in these accounts or temporarily used to purchase short-term investments. Individual fund integrity is maintained through the City's records.

During 1998, investments were limited to STAROhio and repurchase agreements

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

STAROhio is an investment pool managed by the State Treasurer's Office which allows governments within the State to pool their funds for investment purposes. STAROhio is not registered with the SEC as an investment company, but does operate in a manner consistent with Rule 2a7 of the Investment Company Act of 1940. Investments in STAROhio are valued at STAROhio's share price which is the price the investment could be sold for on December 31, 1998.

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

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

**City of East Cleveland, Ohio**  
*Notes To The General Purpose Financial Statements*  
*For the Year Ended December 31, 1998*

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Investment procedures are restricted by the provisions of the Ohio Revised Code. Interest revenue credited to the general fund during 1998 amounted to \$189,201, which includes \$87,324 assigned from other City funds.

For purposes of the combined statement of cash flows and for presentation on the combined balance sheet, investments of the cash management pool and investments with original maturities of three months or less at the time they are purchased by the City are considered to be cash equivalents. Investments with an initial maturity of more than three months are reported as investments.

***D. Inventory***

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

***F. Interfund Assets and Liabilities***

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

***G. Fixed Assets and Depreciation***

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

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

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

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

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

**City of East Cleveland, Ohio**  
*Notes To The General Purpose Financial Statements*  
*For the Year Ended December 31, 1998*

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

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

In general, governmental fund payables and accrued liabilities are reported as obligations of the funds, regardless of whether they will be liquidated with current resources. However, claims and judgements, compensated absences, special termination benefits and contractually required pension contributions are reported as a liability in the general long-term obligation account group to the extent that they will not be paid with current expendable available financial resources. Payments made more than sixty days after year end are generally considered not to have been paid with current available resources. Long-term loans, capital leases and contingent liabilities are recognized as a liability of the general long-term obligations account group until due. Long-term debt and other obligations financed by proprietary funds are reported as liabilities in the appropriate proprietary funds.

***I. Compensated Absences***

The liability for compensated absences is based on the provisions of Governmental Accounting Standards Board Statement No. 16, "Accounting for Compensated Absences." Vacation benefits are accrued as a liability as the benefits are earned if the employees' rights to receive compensation are attributable to services already rendered and it is probable that the employer will compensate the employees for the benefits through paid time off or some other means. The City records a liability for accumulated unused vacation time when earned for all employees with more than one year of service.

Sick leave benefits are accrued as a liability using the termination method. An accrual for earned sick leave is made to the extent it is probable that benefits will result in termination payments. The liability is an estimate based on the City's past experience of making termination payments.

For governmental funds, the current portion of unpaid compensated absences is the amount expected to be paid using expendable available resources. These amounts are recorded in the account "compensated absences payable" in the fund from which the employees who have accumulated unpaid leave are paid. The remainder is reported in the general long-term obligations account group. In proprietary funds, the entire amount of compensated absences is reported as a fund liability.

***J. Fund Equity***

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



**City of East Cleveland, Ohio**  
*Notes To The General Purpose Financial Statements*  
*For the Year Ended December 31, 1998*

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***K. Interfund Transactions***

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

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

***L. 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.

***M. Total - Memorandum Only Columns***

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

**Note 3 - Restatement of Prior Year's Balance and Change in Accounting Principle**

For 1998, the City has implemented GASB Statement No. 31, "Accounting and Financial Reporting for Certain Investments and for External Investment Pools." This statement established accounting and reporting guidelines for government investments and investment pools. Certain investments which were reported at cost in previous years are now reported at fair value. The implementation of GASB 31 had no effect on fund balance/retained earnings as of December 31, 1997.

The City has also implemented GASB Statement No 32, "Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans" for its deferred compensation plan through Ohio Public Employees Deferred Compensation Program. On September 1, 1998, Ohio Public Employees Deferred Compensation Program created a trust for the assets of the plan for which the City has no fiduciary responsibility. Therefore, the balance of the Ohio Public Employees deferred compensation is no longer presented as part of the financial statements.

For the year ended December 31, 1997, the City understated their capital leases by \$129,114. This increased the balance in the general long-term obligations account group from \$3,665,149 to \$3,794,263 at December 31, 1997.

**City of East Cleveland, Ohio**  
*Notes To The General Purpose Financial Statements*  
*For the Year Ended December 31, 1998*

**Note 4 - Budgetary Basis of Accounting**

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

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

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

The following tables summarize the adjustments necessary to reconcile the GAAP basis statements to the budgetary basis statements on a fund type basis:

*Excess of Revenues and Other Financing Sources  
Over (Under) Expenditures and Other Uses  
All Governmental Fund Types*

	General	Special Revenue	Debt Service	Capital Projects
GAAP Basis	\$422,845	\$227,890	(\$3,265)	\$313,339
Net Adjustment for Revenue Accruals	123,421	(2,729)	0	25,146
Net Adjustment for Expenditure Accruals	175,979	(34,558)	0	(309)
Encumbrances	(411,294)	(340,750)	0	(209,558)
Budget Basis	\$310,951	(\$150,147)	(\$3,265)	\$128,618

**City of East Cleveland, Ohio**  
*Notes To The General Purpose Financial Statements*  
*For the Year Ended December 31, 1998*

Net Loss/Excess of Revenues  
 Under Expenses  
 Proprietary Fund Type

	Enterprise
GAAP Basis	(\$555,865)
Net Adjustment for Revenue Accruals	(35,202)
Net Adjustment for Expenditure Accruals	(21,026)
Depreciation Expense	26,691
Capital Outlay	(14,945)
Encumbrances	(52,060)
Budget Basis	(\$652,407)

**Note 5 - Accountability and Compliance**

**A. Fund Deficits**

The following funds had deficit fund balances as of December 31, 1998:

Fund	Amount
<i>Special Revenue Funds:</i>	
Older Americans	\$17,722
S.M.A.R.T.	3,748
Community COPS	2,799
COPS More	17,622
Nature Works	1,993
<i>Capital Projects Funds:</i>	
H.S. Brown Renovations	66,282

The Older Americans, S.M.A.R.T., Community COPS, COPS More and Nature Works special revenue funds and the H.S. Brown Renovations capital projects fund's deficit resulted from adjustments for accrued liabilities. The General Fund is liable for any deficit and provides operating transfers when cash is required, not when accruals occur.

**City of East Cleveland, Ohio**  
*Notes To The General Purpose Financial Statements*  
*For the Year Ended December 31, 1998*

**B. Legal Compliance**

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

Fund/Program	Appropriations	Expenditures Plus Encumbrances	Excess
<b>Enterprise Funds:</b>			
Water Fund			
Benefits	\$78,800	\$109,793	(\$30,993)
Contractual Services	3,167,593	3,183,713	(16,120)
Sewer Fund			
Benefits	99,580	111,881	(12,301)
Contractual Services	3,241,975	3,284,808	(42,833)

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

**Note 6 - Deposits and Investments**

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

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

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

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

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

Interim monies may be invested in the following securities:

1. United States treasury notes, bills, bonds, or any other obligation or security issued by the United States treasury or any other obligation guaranteed as to principal and interest by the United States;

**City of East Cleveland, Ohio**  
*Notes To The General Purpose Financial Statements*  
*For the Year Ended December 31, 1998*

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

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

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

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

Investments may only be made through specified dealers and institutions. Payment for investments may be made only upon delivery of the securities representing the investments to the treasurer or, if the securities are not represented by a certificate, upon receipt of confirmation of transfer from the qualified trustee or, custodian.

GASB Statement 3 "Deposits with Financial Institutions, Investments (including Repurchase Agreements), and Reverse Repurchase Agreements" requires disclosures to help assess actual and potential future deposit and investment market and credit risks. The following information regarding deposits and investments is presented using the categories of risk identified in GASB Statement 3.

**City of East Cleveland, Ohio**  
*Notes To The General Purpose Financial Statements*  
*For the Year Ended December 31, 1998*

**Deposits** At year-end, the carrying amount of the City's deposits was \$2,265,494 and the bank balance was \$2,536,364. Of the bank balance:

1. \$642,038 was covered by federal depository insurance.
2. \$1,894,326 was uncollateralized and uninsured. Although the securities were held by the pledging financial institutions trust department or agent in the City's name and all State statutory requirements for the investment of money had been followed, noncompliance with federal requirements could potentially subject the City to a successful claim by the FDIC.

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

	Category 3	Carrying Value	Fair Value
Repurchase Agreements	\$3,292,772	\$3,292,772	\$3,292,772
StarOhio			762,132
Total Investments			\$4,054,904

The classification of cash and cash equivalents and investments on the combined financial statements is based on criteria set forth in GASB Statement No. 9. Cash and cash equivalents are defined to include investments with original maturities of three months or less and cash and investments of the cash management pool.

A reconciliation between the classification of cash and investments on the combined financial statements and the classification per GASB Statement No. 3 is as follows:

	Cash and Cash Equivalents/Deposits	Investments
GASB Statement No. 9	\$6,320,398	\$0
Investments:		
Repurchase Agreements	(3,292,772)	3,292,772
STAROhio	(762,132)	762,132
GASB Statement No. 3	\$2,265,494	\$4,054,904

**City of East Cleveland, Ohio**  
*Notes To The General Purpose Financial Statements*  
*For the Year Ended December 31, 1998*

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**Note 7 - Taxes**

**A. Property Taxes**

Property taxes include amounts levied against all real, public utility and tangible personal property located in the City. Taxes collected from real property (other than public utility) in one calendar year are levied by October 1 in the preceding calendar year on assessed values as of January 1 of the preceding year, the lien date. Assessed values are established by the County Auditor at 35 percent of appraised market value. All property is required to be revalued every six years. The last revaluation was completed in 1998. Real property taxes are payable annually or semi-annually. If paid annually, the first payment is due December 31; if paid semi-annually, payment is due December 31 with the remainder payable by June 20, unless extended.

Taxes collected on tangible personal property (other than public utility) in one calendar year are levied in the prior calendar year as of December 31 and at the tax rates determined in the preceding year. Tangible personal property used in business (except for public utilities) is currently assessed for ad valorem taxation purposes at 25 percent of its true value. Amounts paid by single county taxpayers are due September 20. Multi-county taxpayers may pay annually or semi-annually. If paid annually, payment is due April 30; if paid semi-annually, the first payment is due April 30, with the remainder payable by September 20.

Public utility real and tangible personal property taxes collected in one calendar year are levied in the preceding calendar year on assessed values determined as of December 31 of the second year preceding the tax collection year, the lien date. Certain public utility tangible personal property currently is assessed at 88 percent of its true value. Public utility property taxes are payable on the same dates as real property taxes described previously.

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

The full tax rate for all City operations for the year ended December 31, 1998 was \$8.98 per \$1,000 of assessed value. The assessed values of real and tangible personal property upon which 1996 property tax receipts were based are as follows:

Real Property	\$149,349,530
Public Utility Personal Property	18,926,510
Tangible Personal Property	13,516,928
Total Assessed Value	<u>\$181,792,968</u>

**B. Income Taxes**

The City levies a municipal income tax of two percent on all salaries, wages, commissions and other compensation, and net profits earned within the City as well as incomes of residents earned outside of the City. In the latter case, the City allows a credit of 75 percent of the tax paid to another municipality to a maximum of the total amount assessed with a limit to the credit of 1.25 percent.

**City of East Cleveland, Ohio**  
*Notes To The General Purpose Financial Statements*  
*For the Year Ended December 31, 1998*

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

**Note 8 - Receivables**

Receivables at December 31, 1998 primarily consisted of taxes, accounts (billings for user charged services), intergovernmental receivables, entitlement or shared revenues and interest on investments. All receivables are considered fully collectible, except for utility receivables, which has an allowance for doubtful accounts of \$1,280,243.

A summary of the principal items of intergovernmental receivables follows:

<i>Intergovernmental Receivables</i>	<i>Amount</i>
General Fund:	
Grants	\$30,058
Liquor Permits	4,798
\$10,000 Personal Property Exemption	8,835
Local Government Assistance	9,273
<i>Total General Fund</i>	<i>52,964</i>
Special Revenue Funds:	
Street	34,188
Fire and Police Pension	524
Older Americans	30,529
Community Development	58,584
<i>Total Special Revenue Funds</i>	<i>123,825</i>
Capital Projects Fund	
Permanent Improvements	1,750
<i>Total</i>	<i>\$178,539</i>

**Note 9 - Fixed Assets**

A summary of the enterprise funds' fixed assets at December 31, 1998 follows:

Water Lines	\$4,481,120
Machinery and Equipment	323,241
Construction in Progress	3,889,348
Less Accumulated Depreciation	(762,741)
Net Fixed Assets	\$7,930,968



**City of East Cleveland, Ohio**  
*Notes To The General Purpose Financial Statements*  
*For the Year Ended December 31, 1998*

A summary of changes in general fixed assets during 1998 follows:

	Balance 1/1/98	Additions	Deductions	Balance 12/31/98
Land	\$1,329,717	\$0	\$0	\$1,329,717
Buildings	3,439,060	52,940	0	3,492,000
Machinery and Equipment	3,954,673	184,471	0	4,139,144
Total	<u>\$8,723,450</u>	<u>\$237,411</u>	<u>\$0</u>	<u>\$8,960,861</u>

**Note 10 - Contingencies**

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

**Note 11 - Capital Leases**

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

Capital lease payments have been reclassified and are reflected as debt service in the general purpose financial statements in the general fund. These expenditures are reflected as program/function expenditures on a budgetary basis.

The equipment has been capitalized in the general fixed assets account group in the amount of \$737,277, the present value of the minimum lease payments at the inception of the lease. A corresponding liability was recorded in the general long-term obligations account group. The following is a schedule of the future minimum lease payments required under the capital leases and the present value of the minimum lease payments as of December 31, 1998.

**City of East Cleveland, Ohio**  
*Notes To The General Purpose Financial Statements*  
*For the Year Ended December 31, 1998*

Year	Amount
1999	\$168,076
2000	110,775
2001	82,433
2002	76,521
2003	76,521
2004-2008	337,969
Total minimum lease payments	\$852,295
Less: Amount representing interest	(158,302)
Present value of minimum lease payments	\$693,993

**Note 12 - Long Term Obligations**

Changes in the long-term obligations of the City during 1998 were as follows:

	Outstanding 12/31/97	Additions	(Reductions)	Outstanding 12/31/98
<b>General Long-term Obligations:</b>				
OPWC Loan 0%	\$8,689	\$0	(\$511)	\$8,178
Capital Leases	321,201	595,158	(222,366)	693,993
Police and Fire Pension Liability	1,743,955	0	(19,144)	1,724,811
Compensated Absences	1,376,279	0	(185,190)	1,191,089
Contingent Liability	25,000	0	0	25,000
Intergovernmental Payable	319,139	350,318	(319,139)	350,318
Total General Long-Term Obligations	3,794,263	945,476	(746,350)	3,993,389
<b>Enterprise Fund Obligations</b>				
OPWC Loans	701,546	0	(39,438)	662,108
Total	\$4,495,809	\$945,476	(\$785,788)	\$4,655,497

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

**City of East Cleveland, Ohio**  
*Notes To The General Purpose Financial Statements*  
*For the Year Ended December 31, 1998*

The City's overall legal debt margin was \$17,631,969 at December 31, 1998. Principal and interest requirements to retire long-term obligations outstanding at December 31, 1998 are as follows:

	OPWC Loans	Police and Fire Liability
1999	40,543	47,485
2000	40,543	47,483
2001	40,543	47,485
2002	40,543	47,483
2003-2007	202,715	237,421
2008-2012	202,715	237,419
2013-2017	94,506	237,421
2018-2035	0	849,401
<b>Total</b>	<b>\$662,108</b>	<b>\$1,751,598</b>

**Note 13 - Other Employee Benefits**

***Compensated Absences***

The criteria for determining vacation and sick leave liabilities are derived from negotiated agreements and State laws. Employees earn vacation and sick leave at different rates which are also affected by length of service. Vacation and sick leave cannot exceed 50 or 120 days, respectively, at year end. However, all employees with sick days in excess of the 120 days must convert to cash on a three-to-one basis.

Upon retirement, an employee can be paid for 25 percent of their accumulated hours of sick leave. Upon retirement, termination, or death of the employee, accrued vacation is paid for time the employees have earned but not used.

As of December 31, 1998, the liability for unpaid compensated absences was \$1,279,444 for the entire City.

**Note 14 - Defined Benefit Pension Plans**

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

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

**City of East Cleveland, Ohio**  
*Notes To The General Purpose Financial Statements*  
*For the Year Ended December 31, 1998*

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Plan members are required to contribute 8.5 percent of their annual covered salary to fund pension obligations and the City is required to contribute 9.35 percent. Contributions are authorized by State statute. The contribution rates are determined actuarially. The City's required contributions to PERS for the years ended December 31, 1998 1997 and 1996 were \$524,506, \$301,560 and \$411,194 respectively. The full amount has been contributed for 1997 and 1996. 79.82 percent has been contributed for 1998 with the remainder being reported as a general long-term obligation.

***B. Police and Firemen's Disability and Pension Fund***

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

Police and firefighters are required to contribute 10 percent of their annual covered salary to fund pension obligations and the City is required to contribute 13 percent for police and 17.5 percent for firefighters. Contributions are authorized by State statute. The City's contributions to PFDPF for the years ended December 31, 1998, 1997, and 1996 were \$339,982, \$278,566 and \$357,707 for police and \$347,755, \$294,637 and \$411,290 for fire; respectively. The full amount has been contributed for 1997 and 1996. 76.39 percent for police and 78.81 percent for fire has been contributed for 1998 with the remainder being reported as a general long-term obligation.

In addition to the current contribution, the City pays installments on the accrued liability incurred when the State of Ohio established the statewide pension system for police and firefighters in 1967. As of December 31, 1998, the unfunded liability of the City was \$1,724,447, payable in semiannual payments through the year 2035. This is an accounting liability of the City which will not vary. The liability is reported in the general long-term obligations account group.

**Note 14 - Postemployment Benefits**

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

The Public Employees Retirement System of Ohio (PERS) provides postretirement health care coverage to age and service retirees with ten or more years of qualifying Ohio service credit and to primary survivor recipients of such retirees. Health care coverage for disability recipients is available. The health care coverage provided by the retirement system is considered an Other Postemployment Benefit (OPEB) as described in GASB Statement No. 12. A portion of each employer's contribution to PERS is set aside for the funding of postretirement health care based on authority granted by State statute. The 1998 employer contribution rate was 13.55 percent of covered payroll; 4.2 percent was the portion that was used to fund health care. For 1997, the percent used to fund health care was 5.11 percent.

**City of East Cleveland, Ohio**  
*Notes To The General Purpose Financial Statements*  
*For the Year Ended December 31, 1998*

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Benefits are funded on a pay-as-you-go basis. OPEB are financed through employer contributions and investment earnings. The contributions allocated to retiree health care and Medicare, along with investment income on allocated assets and periodic adjustments in health care provisions, are expected to be sufficient to sustain the program indefinitely. During 1998, OPEB expenditures made by PERS were \$440,596,663. As of December 31, 1998, the unaudited estimated net assets available for future OPEB payments were \$9,447,325,318. At December 31, 1998, the total number of benefit recipients eligible for OPEB through PERS was 115,579. The City's actual contributions for 1998 which were used to fund OPEB were \$235,607.

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

***B. Police and Firemen's Disability and Pension Fund***

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

The health care coverage provided by the retirement system is considered an Other Postemployment Benefit as described in GASB Statement No. 12. The Ohio Revised Code provides the authority allowing the Police and Firemen's Disability and Pension Fund's board of trustees to provide health care coverage and states that health care cost paid from the Police and Firemen's Disability and Pension Fund shall be included in the employer's contribution rate. Health care funding and accounting is on a pay-as-you-go basis. The total police employer contribution is 19.5 percent of covered payroll and the total firefighter employer contribution rate is 24 percent of covered payroll, of which 6.5 percent of covered payroll is applied to the postemployment health care program. In addition, since July 1, 1992, most retirees have been required to contribute a portion of the cost of their health care coverage through a deduction from their monthly benefit payment.

The City's actual contributions for 1998 that were used to fund post employment benefits were \$169,991 for police and \$129,166 for fire. PFDPF's total health care expenses for the year ending December 31, 1997, (the latest information available) were \$76,459,832. The number of participants eligible to receive health care benefits as of December 31, 1997, was 11,239 for police and 9,025 for firefighters.

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

The City maintains two enterprise funds to account for sewer and water operations. Segment information for these operations for the year ended December 31, 1998 is as follows:

**City of East Cleveland, Ohio**  
*Notes To The General Purpose Financial Statements*  
*For the Year Ended December 31, 1998*

	Water	Sewer	Total
Operating Revenues	\$3,172,525	\$2,937,242	\$6,109,767
Depreciation Expense	0	0	0
Operating Loss	(530,402)	(669,115)	(1,199,517)
Operating Transfer In	294,000	306,000	600,000
Non-Operating Revenues	19,217	24,435	43,652
Net Loss	(217,185)	(338,680)	(555,865)
Net Working Capital	912,905	1,119,977	2,032,882
Total Assets	9,161,785	1,456,305	10,618,090
Long-Term Liabilities	676,848	7,992	684,840
Total Equity	8,167,025	1,111,985	9,279,010
Encumbrances at December 31, 1998	44,110	7,950	52,060

**Note 17 - Risk Management**

The City of East Cleveland is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During 1998, the City contracted with several companies for other types of insurance as follows:

Company	Type of Coverage	Deductible
Reliance Insurance	Automobile Liability and Property Damage	\$250 deductible on Comprehensive and Collision Coverage
	Law Enforcement Liability	\$100,000 deductible
	Public Officials Liability	\$25,000 deductible
	Public Official Bond - Finance Director	No deductible
	Public Employee Dishonesty	No deductible
Arkwright Mutual Insurance	Commercial Property	\$1,000 deductible
	Boiler/Machinery Coverage	\$500 deductible

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

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

**City of East Cleveland, Ohio**  
*Notes To The General Purpose Financial Statements*  
For the Year Ended December 31, 1998

The City has settled various cases arising from general liability and motor vehicle claims. The claims liability of \$25,000 relates to the outstanding claims liability from general liability and motor vehicle claims settlements at December 31, 1998.

The City manages the hospital/medical, prescription drug and vision benefits for its employees on a self-insured basis. Payments are made from the fund from which the employee is paid. Rates for 1998 ranged from \$255 to \$558 per month for single and family coverage depending on the bargaining unit of the employee. The Plan Administrator for the City determines these rates. Benefit Services, Incorporated, the third party administrator, processes and pays the claims. An excess coverage insurance (stop loss) policy covers claims in excess of \$50,000 per employee and an aggregate of \$1,000,000 per year. Claims did not exceed the \$50,000 per employee, nor did it exceed the aggregate.

The health insurance claims liability of \$84,994 is reported in various funds at December 31, 1998, was estimated by the third party administrator and is based on the requirements of Governmental Accounting Standards Board Statement No. 10 which requires that a liability for unpaid claims costs, including estimates of costs relating to incurred but not reported claims, be reported. The estimate was not affected by incremental claims adjustments expenses and does not include other allocated or unallocated claim adjustment expenses. Changes in the fund's claims liability amount in 1996 and 1998 were:

	Balance at Beginning of Year	Current Year Claims	Claim Payments	Balance at End of Year
1996	\$233,973	\$987,057	\$1,119,964	\$101,066
1997	101,066	939,528	904,490	136,104
1998	136,104	1,301,877	1,352,987	84,994

**Note 19- Interfund Transactions**

Interfund balances at December 31, 1998, consist of the following interfund receivables and payables:

	Receivable	Due From	Payable	Due To
<i>General Fund</i>	\$124,799	\$29,731	\$0	\$0
<i>Special Revenue Funds</i>				
Older Americans	0	0	25,564	0
Litter Diversion	0	0	4,408	0
Community Development	0	0	41,330	59,160
S.M.A.R.T.	0	29,429	30,686	0
COPS More	0	0	15,586	0
Nature Works	0	0	1,993	0
<i>Total Special Revenue</i>	0	29,429	119,567	59,160
<i>Capital Projects Fund</i>				
Construction - State Grant	0	0	5,232	0
<b>Totals</b>	<b>\$124,799</b>	<b>\$59,160</b>	<b>\$124,799</b>	<b>\$59,160</b>

**City of East Cleveland, Ohio**  
*Notes To The General Purpose Financial Statements*  
*For the Year Ended December 31, 1998*

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**Note 20- Year 2000 Information**

The year 2000 issue is the result of shortcomings in many electronic data processing systems and other equipment that may adversely affect the government's operations.

The City has completed an inventory of computer systems and other equipment necessary to conducting City operations and has identified such systems as being financial reporting, payroll, utility billing, and income tax accounting.

The financial reporting, payroll, utility billing and income tax accounting systems have been assessed, remediated, tested and validated.

Cuyahoga County collects property taxes for distribution to the City. Cuyahoga County is responsible for remediating its tax collection system.

The State of Ohio distributes a substantial sum of money to the City in the form of federal and state grant payments. The State is responsible for remediating this system.

Because of the unprecedented nature of the Year 2000 issue, its effects and the success of related remediation efforts will not be fully determinable until the year 2000 and thereafter. Management cannot assure that the City is or will be year 2000 ready, that the City's remediation efforts will be successful in whole or in part, or that parties with whom the City does business will be year 2000 ready.



City of East Cleveland

Schedule of Federal Awards Expenditures  
For the Year Ended December 31, 1998

Federal Grantor/ Pass-Through Grantor/ Program Title	Project/Grant Number	CFDA Number	Receipts	Disbursements
<b><u>U. S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT</u></b>				
Direct Programs:				
Community Development Block Grant	N/A	14.218	\$800,731	\$899,433
Home Investment Partnership Program				
Home Program - 1992	N/A	14.239	4,840	4,734
- 1993	N/A	14.239	23,689	23,343
- 1994	N/A	14.239	155,534	155,534
- 1995	N/A	14.239	146,032	146,032
- 1996	N/A	14.239	70,675	70,875
- 1997	N/A	14.239	3,000	3,000
Total Home Investment Partnership Program			403,770	403,318
Passed Through the Ohio Department of Development:				
Single Mothers Adopt Reality Therapy ( S.M.A.R.T.) (Special Purpose Grant)	N/A	14.xxx	73,934	97,718
Total U.S. Department of Housing and Urban Development			1,278,435	1,400,469
<b><u>U. S. DEPARTMENT OF HEALTH AND HUMAN SERVICES</u></b>				
Passed Through the Western Reserve Area Agency on Aging				
Title III F Grants	N/A	93.043	5,009	1,734
Aging Cluster:				
Title III B Grants	N/A	93.044	205,846	193,024
Title III C Grants	N/A	93.045	33,329	33,006
Total Aging Cluster			239,175	226,030
Passed Through the City of Cleveland:				
HIV Prevention Activities - Health Department Based ODH-HIV	N/A	93.940	0	25
Total U.S. Department of Health and Human Services			244,184	227,789
<b><u>U.S. DEPARTMENT OF JUSTICE</u></b>				
Direct Programs:				
Juvenile Mentoring Program - C.O.P.S. Fast	N/A	16.726	62,543	100,600
Public Safety Partnership & Community Policing Grants - C.O.P.S. More	N/A	16.710	86,133	135,628
Local Law Enforcement Block Grant	N/A	16.592	0	1,058
Total Direct Programs			148,676	237,286
Passed Through the State of Ohio Attorney General:				
Victims of Crime Assistance ( V.O.C.A.)	99VADSCE176	96.176	36,323	35,860
Total U.S. Department of Justice			184,999	273,146
Total Federal Assistance			\$1,707,618	\$1,901,404

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

**City of East Cleveland**

**Notes to Schedule of Federal Awards Expenditures  
For the Year Ended December 31, 1998**

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



STATE OF OHIO  
OFFICE OF THE AUDITOR  
JIM PETRO, AUDITOR OF STATE

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

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

We have audited the financial statements of the City of East Cleveland, Cuyahoga County, Ohio, (the City) as of and for the year ended December 31, 1998, and have issued our report thereon dated November 19, 1999, in which report we noted the City changed its accounting for investments and its deferred compensation plan. We conducted our audit in accordance with generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

### Compliance

As part of obtaining reasonable assurance about whether the City's general-purpose financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance that are required to be reported under *Government Auditing Standards* which are described in the accompanying schedule of findings and questioned cost as items 1998-20818-001 and 1998-20818-002. We also noted certain immaterial instances of noncompliance that we have reported to management of the City in a separate letter dated November 19, 1999.

### Internal Control Over Financial Reporting

In planning and performing our audit we considered the City's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the general-purpose financial statements and not to provide assurance on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operations that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgement, could adversely affect the City's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in the accompanying schedule of findings and questioned cost as items 1998-20818-003 and 1998-20818-004.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, of the reportable conditions described above, we consider items 1998-20818-003 and 1998-20818-004 to be material weaknesses. We also noted other matters involving the internal control over financial reporting that do not require inclusion in this report, that we have reported to management of the City in a separate letter dated November 19, 1999.

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

A handwritten signature in black ink, appearing to read "Jim Petro", is written over a large, stylized circular scribble.

**JIM PETRO**  
Auditor of State

November 19, 1999



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

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

**Compliance**

We have audited the compliance of the City of East Cleveland, Cuyahoga County, Ohio, (the City) with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to its major federal programs for the year ended December 31, 1998. The City's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned cost. Compliance with the requirements of laws, regulations, contracts and grants applicable to its major federal programs is the responsibility of the City's management. Our responsibility is to express an opinion on the City's compliance based on our audit.

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

In our opinion, the City complied, in all material respects, with the requirements referred to above that are applicable to its major federal programs for the year ended December 31, 1998. However, the results of our auditing procedures disclosed instances of noncompliance with those requirements that are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying schedule of findings and questioned cost as items 1998-20818-005 to 1998-20818-007. We also noted an immaterial instance of noncompliance that we have reported to management of the City in a separate letter dated November 19, 1999.

**Internal Control Over Compliance**

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

We noted certain matters involving the internal control over compliance and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over compliance that, in our judgment, could adversely affect the City's ability to administer a major federal program in accordance with applicable requirements of laws, regulations, contracts and grants. A reportable condition is described in the accompanying schedule of findings and questioned cost as item 1998-20818-008.

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

We also noted other matters involving the internal control over federal compliance that do not require inclusion in this report, that we have reported to management of the City in a separate letter dated November 19, 1999.

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



**JIM PETRO**  
Auditor of State

November 19, 1999

City of East Cleveland  
Cuyahoga County, Ohio  
December 31, 1998

Schedule of Findings and Questioned Costs  
OMB Circular A - 133 § .505

**1. SUMMARY OF AUDITOR'S RESULTS**

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

City of East Cleveland  
Cuyahoga County, Ohio  
December 31, 1998

Schedule of Findings and Questioned Costs  
OMB Circular A - 133 § .505  
(Continued)

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

**NONCOMPLIANCE CITATIONS**

Finding Number	1998-20818-001
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Ohio Rev. Code Section 5705.41(D) prohibits a political subdivision from making an expenditure unless there is a certificate of the fiscal officer stating that the amount required for the order or contract has been lawfully appropriated and is in the treasury or in the process of collection to the credit of an appropriate fund free from any previous encumbrances.

57% of the invoices tested were dated prior to the Finance Director's certification, contrary to this requirement. In addition, all of the expenditures tested for the City's federal Home Program were made without obtaining the Finance Director's certification.

Finding Number	1998-20818-002
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Ohio Rev. Code Section 1901.31(E), requires the clerk of a municipal court to prepare and maintain a court docket. Further, it states: "In the docket, the clerk shall enter, at the time of the commencement of an action, the names of the parties in full, the names of the counsel, and the nature of the proceedings. Under proper dates, he shall note the filing of the complaint, issuing of summons or other process, returns, and any subsequent pleadings. He shall also enter all reports, verdicts, orders, judgments, and proceedings of the court, clearly specifying the relief granted or orders made in each action." The clerk of the Municipal Court does not maintain a court docket and we recommend that they take immediate action to correct this situation.

Finding Number	1998-20818-003
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**Utility Accounts Receivable**

The City has been carrying aged delinquencies and uncollectible accounts on its books for several years. Utility accounts are in arrears for more than \$1.8 million. In order to collect delinquent utility receivables, other municipalities have certified their aged receivables to the County Auditor for assessment of such charges on the tax bills.

We recommend the City contact the County Auditor's Office and have the County include the delinquent utility charges against the individual's property tax assessment.

The City implemented this recommendation in 1999.



City of East Cleveland  
Cuyahoga County, Ohio  
December 31, 1998

Schedule of Findings and Questioned Costs  
OMB Circular A - 133 § .505  
(Continued)

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

(Continued)

Finding Number	1998-20818-004
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**Municipal Court**

A review of the Municipal Court disclosed the following:

- The Court's control activities are weak. Record keeping was inaccurate and inconsistent, and there appears to be little progress on the part of the Judge or Clerk of Courts to develop written procedures, instructions, and assignment of duties to prevent misunderstanding, errors, inefficient or wasted effort, duplicated or omitted procedures, and other situations that can result in inaccurate and/or untimely records.
- The Court does not maintain an accurate cash journal for the Civil, Criminal/Traffic, and Bail Bond accounts because the computer software does not allow integration of data. Thus, there is no record of a cash balance to reconcile to, and no reconciliations were performed by the Court during the year.
- *The cash activity of all court accounts, except trusteeship, have been commingled due to the lack of sufficient monitoring controls. Furthermore, the Court's prior bank accounts had been closed out and new accounts established in order to facilitate control over subsequent cash activities. Court personnel appeared to be unaware of the establishment of the new accounts. Consequently, cash activity was commingled between the Court's closed out accounts and newly established accounts.*
- The Court does not review the open items list of bail bond accounts on a regular basis in order to determine the status of the various stale accounts. Sufficient controls to validate the accuracy of open items have not been established. Consequently, a reconstruction of the open item list had to be performed the last two years. As of December 31, 1998, approximately \$163,725 in bond accounts are more than one year old and approximately \$75,000 are more than four years old.
- The Court does not prepare the open items list of the Civil account necessary to substantiate the month end cash balance. This leads to errors occurring in the open items lists that are not detected in a timely manner.
- Since the Court does not prepare a court docket, the amount of bond collections could not be verified with the amount set per the City's bond schedule.

City of East Cleveland  
Cuyahoga County, Ohio  
December 31, 1998

Schedule of Findings and Questioned Costs  
OMB Circular A - 133 § .505  
(Continued)

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

(Continued)

Finding Number	1998-20818-004
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**Municipal Court (Continued)**

Based on these facts, we recommend that:

- The Judge and/or Clerk of Courts develop written procedures for all Court activities. The procedures should be in sufficient detail as to provide employees with instructions on performing all Court activities.
- Reconciliations be performed at the end of each month in order to validate the cash activities of the Civil, Criminal/Traffic, and Bail Bond accounts.
- The Civil, Criminal/Traffic, and Bail Bond accounts' cash ledgers be prepared by integrating the receipt files from the computer system and the checks being drawn on the account. The book balance represented in the ledger and the bank statement balance could then be accurately reconciled. The Court should also seek system support from its internal EDP department and its software vendor to review the capabilities of the present system. It should determine the need for peripheral support to the present system in order to establish a properly maintained ledger which integrates revenue and disbursement activity to produce reliable, perpetually maintained cash balance information.
- Due diligence be used in the monitoring of the Court's cash and book activities. Also, sufficient monitoring procedures should be established and consistently applied to ensure the integrity of individual court accounts and the avoidance of commingling the activities. Monitoring should include, but not be limited to, management's review of case status, accounts receivable, open items lists (including bonds), account reconciliations and the disposition of cases.
- The Court review and update the open items list for City and State bonds to determine the status of each bail bond deposit. Once the status is determined, the proper steps should be taken by the law department to determine which items may legally be placed in an unclaimed funds account established by the City. Policies should be established that ease the compilation of the list and the list should be updated monthly.
- The Court substantiate the Civil account month-end balance by preparing an open items list of Civil cases pending which constitute the month-end book balance. The list should be updated and prepared at each month-end.
- The criminal court docket be prepared in such a manner to allow verification that amounts charged for bonds adhere to the bond schedule.

City of East Cleveland  
Cuyahoga County, Ohio  
December 31, 1998

Schedule of Findings and Questioned Costs  
OMB Circular A - 133 § .505  
(Continued)

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

<b>Finding Number</b>	1998-20818-005
<b>CFDA Title and Number</b>	Community Development Block Grant, CFDA # 14.218
<b>Federal Agency</b>	Department of Housing and Urban Development

OMB Circular A-87, Attachment E, Paragraph D(1)(d), states that "... indirect cost proposals must be developed and, when required, submitted within 6 months after the close of the governmental unit's fiscal year, unless an exception is approved by the cognizant Federal agency."

The City was charging the CDBG program for indirect costs based on an indirect cost plan prepared several years ago by the HUD Office of Inspector General (OIG).

We recommend the City develop an indirect cost proposal that is acceptable to support indirect costs being charged to the CDBG program. The proposal should be submitted to Health and Human Services, the City's Cognizant agent, for review and approval.

<b>Finding Number</b>	1998-20818-006
<b>CFDA Title and Number</b>	Community Development Block Grant, CFDA # 14.218
<b>Federal Agency</b>	Department of Housing and Urban Development

Section 24 CFR Part 85.36(d)(1) states in part that "Small purchase procedures are those relatively simple and informal procurement methods for securing services, supplies, or other property that do not cost more than \$25,000 in the aggregate. If small purchase procurements are used, price or rate quotations will be obtained from an adequate number of qualified sources."

City Charter Section 72, provides that any expenditure exceeding \$10,000 is subject to competitive bidding procedures.

Circular A-102 requires that a system be in place to assure that procurement documentation is retained for the time period required by the Common Rule, award agreements, contracts and program regulations. Documentation should include:

- The basis for contractor selection;
- Justification for lack of competition when competitive bids or offers are not obtained; and
- The basis for award cost or price.

In 1998, the City issued 22 consecutive purchase orders, numbers 69241 to 69262, totaling \$39,776, for the abatement of public nuisances. A review of these purchase orders disclosed the following:

- Fourteen purchase orders, totaling \$16,763, were issued consecutively to the Cleveland Repair Company for the boarding up of property. While there were contracts on file for each of the purchase orders, there was no documentation to support the basis for the selection of the Cleveland Repair Company.

City of East Cleveland  
Cuyahoga County, Ohio  
December 31, 1998

**Schedule of Findings and Questioned Costs**  
*OMB Circular A - 133 § .505*  
(Continued)

<b>3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS</b>
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(Continued)

<b>Finding Number</b>	1998-20818-006
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(Continued)

- Purchase orders 69260 to 69262, totaling \$20,500, were issued to the Eli Wrecking Company for the abatement of two public nuisances. The demolition of the structure at 14821-23 Terrace Road was awarded for \$9,500, however, four other bids were received ranging from \$5,300 to \$8,355. There was no documentation on file indicating why the highest bid was selected. Purchase orders 69261 for \$2,000 and 69262 for \$9,000 were issued for site preparation and demolition of the structure at 1354-56 Hayden Avenue. These purchase orders appeared to be split in order to avoid competitive bidding procedures.
- Three other purchase orders were issued for boarding up projects totaling \$2,513.

No documentation was provided for the justification for lack of competition or the basis for the award cost or price. As a result, the City did not comply with Circular A-102 procurement provisions and City Charter Section 72.

We recommend that records be maintained that document the basis for contractor selection, justification for lack of competition when competitive bids or offers are not obtained, basis for award cost or price, and quotes received.

Based on the foregoing facts we are questioning costs from this program of \$39,776.

<b>Finding Number</b>	1998-20818-007
<b>CFDA Title and Number</b>	Community Development Block Grant, CFDA # 14.218
<b>Federal Agency</b>	Department of Housing and Urban Development

OMB Circular A-87, Attachment B - Selected Items of Cost, Section 25 Insurance and Indemnification, Part C, states in part that actual losses which could have been covered by permissible insurance (through a self-insurance program or otherwise) are unallowable, unless expressly provided for in the federal award or as described below. However, the Federal Government will participate in actual losses of a self-insurance fund that are in excess of reserves. Costs incurred because of losses not covered under nominal deductible insurance coverage provided in keeping with sound management practice, and minor losses not covered by insurance, such as spoilage, breakage, and disappearance of small hand tools, which occur in the ordinary course of operations, are allowable.

Health insurance claims for employees whose salaries are chargeable to the Community Development Block Grant are being charged directly to the grant. However, a review of the City's CDBG consolidated plan disclosed that health insurance claims were not expressly provided for in the grant. Based on these facts we are questioning expenditures for these claims in the amount of \$37,607.

We recommend the City implement an allowable method of insuring it's personnel to bill the funds according to federal requirements.

City of East Cleveland  
Cuyahoga County, Ohio  
December 31, 1998

Schedule of Findings and Questioned Costs  
OMB Circular A - 133 § .505  
(Continued)

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

(Continued)

<b>Finding Number</b>	1998-20818-008
<b>CFDA Title and Number</b>	Community Development Block Grant, CFDA # 14.218
<b>Federal Agency</b>	Department of Housing and Urban Development

OMB Circular A-87, Attachment B - Select Items of Cost, Compensation of Personnel Services, Section H. Support of Salaries and Wages states in part that charges to Federal awards for salaries and wages, whether \*treated as direct or indirect costs will be based on payrolls documented in accordance with generally accepted practices of the governmental unit and approved by responsible official(s) of the governmental unit. Where employees work on multiple activities or cost objectives, a distribution of their salaries or wages will be supported by personnel activity reports or equivalent documentation which meets the standards in subsection (5) unless a statistical sampling system or other substitute system has been approved by the cognizant federal agency.

Such documentary support will be required where employees work on: (a) more than one federal award, (b) a federal award and a non-federal award, (c) an indirect cost activity and a direct cost activity, (d) two or more indirect activities which are allocated using different allocation bases, or (e) an unallowable activity and a direct or indirect cost activity. Time allocation sheets are not being prepared on a consistent basis for employees who work on a federal program and a non federal program, or on more than one federal program award. This weakness may result in employees salaries being charged to the wrong funds.

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

City of East Cleveland  
Cuyahoga County, Ohio  
December 31, 1998

**Schedule of Prior Audit Findings**  
**OMB Circular A - 133 § .315 (b)**

Finding Number	Finding Summary	Fully Corrected	Not corrected, partially corrected, different corrective action taken; finding no longer valid; <b>Explain</b>
1997-20818-001	Severance pay not reported on 1099 or W-2	Yes	
1997-20818-002	Ohio Revised Code Section 5705.36	Yes	
1997-20818-003	Finding for recovery repaid under audit.	Yes	
1997-20818-004	Year 2000 complaint	Yes	
1997-20818-005	Collecting delinquent utility account receivables	Yes, in 1999	
1997-20818-006	Collection of parking violation fines and penalties	No	Not corrected
1997-20818-007	Questioned costs of \$99,736 for not obtaining the Law Director and City Council's written authorization on the abatement of public nuisances.	No	Not corrected
1997-20818-008	Questioned costs of \$29,123 for charging health insurance claims to the CDBG grant without proper approval.	No	Not corrected



STATE OF OHIO  
OFFICE OF THE AUDITOR  

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CITY OF EAST CLEVELAND

CUYAHOGA COUNTY

**CLERK'S CERTIFICATION**

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

By: *Susan Babbitt*

Date: **JAN 11 2000**