

# **City of East Cleveland, Ohio**

**Single Audit Reports**

**December 31, 2013**





# Dave Yost • Auditor of State

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

We have reviewed the *Independent Auditor's Report* of the City of East Cleveland, Cuyahoga County, prepared by Ciuni & Panichi, Inc., for the audit period January 1, 2013 through December 31, 2013. Based upon this review, we have accepted these reports in lieu of the audit required by Section 117.11, Revised Code. The Auditor of State did not audit the accompanying financial statements and, accordingly, we are unable to express, and do not express an opinion on them.

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

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

Dave Yost  
Auditor of State

December 18, 2017

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# City of East Cleveland, Ohio

For the Year Ended December 31, 2013

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**City of East Cleveland, Ohio**

For The Year Ended December 31, 2013

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## **Independent Auditor's Report**

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

### **Report on the Financial Statements**

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the City of East Cleveland, Ohio (the "City"), as of and for the year ended December 31, 2013, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

### ***Management's Responsibility for the Financial Statements***

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

### ***Auditor's Responsibility***

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the City's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

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

***Summary of Opinions***

<u>Opinion Unit</u>	<u>Type of Opinion</u>
Governmental Activities	Qualified
General Fund	Unmodified
Emergency Medical Services Fund	Unmodified
Aggregate Remaining Fund Information	Unmodified

***Basis for Qualified Opinion on Governmental Activities***

Management did not provide adequate support for the compensated absences balance reported within the Due Within One Year and Due In More Than One Year accounts in the Statement of Net Position. The amount by which this lack of documentation would affect the long term liabilities balance, net position and expenditures of the Governmental Activities has not been determined.

***Qualified Opinion***

In our opinion, except for the effects of the matter described in the “Basis for Qualified Opinion on Governmental Activities” paragraph, the financial statements referred to above present fairly, in all material respects, the financial position of the Governmental Activities of the City East Cleveland, as of December 31, 2013, and the changes in financial position thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

***Unmodified Opinions***

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of each major fund, and the aggregate remaining fund information of the City of East Cleveland, Ohio, as of December 31, 2013, and the respective changes in financial position and the respective budgetary comparison for the General Fund and the Emergency Medical Services Fund for the year then ended in accordance with accounting principles generally accepted in the United States of America.

***Emphasis of Matter***

As described in Note 21 to the financial statements, on October 9, 2012 the Auditor of State determined a fiscal emergency exists, and a financial planning and supervision commission has assumed certain management responsibilities for the duration of this emergency in accordance with Section 118.03 of the Ohio Revised Code. The financial statements do not include any adjustments that might result from the outcome of this uncertainty. Our opinion is not modified with respect to this matter.



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

***Other Matters***

***Required Supplementary Information***

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 5 through 11 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

***Other Reporting Required by Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated November 16, 2017 on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control over financial reporting and compliance.

*Ciuni + Panichi, Inc.*

Cleveland, Ohio  
November 16, 2017

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**City of East Cleveland, Ohio**  
*Management's Discussion and Analysis*  
*For the Year Ended December 31, 2013*  
*Unaudited*

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The discussion and analysis of the City of East Cleveland's financial performance provides an overview of the City's financial activities for the year ended December 31, 2013. The intent of this discussion and analysis is to look at the City's financial performance as a whole; readers should also review the basic financial statements and notes to enhance their understanding of the City's financial performance.

### **Financial Highlights**

Highlights for 2013 are as follows:

- On October 9, 2012, the State Auditor's Office placed the City of East Cleveland into Fiscal Emergency. Prior to this declaration, the City had been in Fiscal Caution, and then Fiscal Watch. The inability of the City to come up with a financial recovery plan that would address deficit fund balances is what ultimately brought it into Fiscal Emergency. Since receiving this designation, the City has worked to put in place a plan of action to eliminate this situation.
- The City entered into a cooperative agreement with The Cleveland Clinic Foundation during 2011. The Clinic agreed to contribute a total of \$7,800,000 to the City and the City would cooperate with the Clinic with the closure of Huron Hospital and the opening of Huron Community Health Center. The City collected \$1,702,050 from the Clinic in 2013.

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

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

The Statement of Net Position and the Statement of Activities provide information showing the effects of the operations for the year 2013 and how they affected the operations of the City as a whole.

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

### ***Reporting the City of East Cleveland as a Whole***

#### *Statement of Net Position and Statement of Activities*

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

These two statements report the City's net position and changes in net position. The change in net position is important since it is an indication of whether the financial position of the City is improving or declining.

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However, to properly evaluate the operation of the City, certain non-cash items should be taken into consideration. These items would include the current economic situation as a whole, the current tax base for the City and the age and condition of the City's buildings and infrastructure.

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

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

Business-Type Activities – These services are provided on a fee basis to recover all of the expenses of the goods or services provided. The City, however, has no business-type activities.

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

***Fund Financial Statements***

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

However, these fund financial statements focus on the City's most significant funds. In this report, the focus is on five major funds: general, emergency medical services, community development, water and sewer.

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

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

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

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**The City of East Cleveland as a Whole**

The Statement of Net Position provides an overall view of the City. Table 1 shows a summary of the City's net position for 2013 compared to 2012.

**Table 1**  
**Net Position**

	Governmental Activities		
	2013	2012	Change
<b>Assets</b>			
Current and Other Assets	\$11,572,643	\$15,207,191	(\$3,634,548)
Capital Assets, Net	17,821,176	17,577,608	243,568
<i>Total Assets</i>	<u>29,393,819</u>	<u>32,784,799</u>	<u>(3,390,980)</u>
<b>Liabilities</b>			
Current Liabilities	3,601,843	3,039,623	562,220
Long-Term Liabilities:			
Due Within One Year	292,727	434,896	(142,169)
Due in More than One Year	5,682,273	5,886,910	(204,637)
<i>Total Liabilities</i>	<u>9,576,843</u>	<u>9,361,429</u>	<u>215,414</u>
<b>Deferred Inflows of Resources</b>			
Property Taxes	1,062,896	1,028,294	34,602
<b>Net Position</b>			
Net Investment in Capital Assets	14,940,340	13,837,241	1,103,099
Restricted for:			
Capital Projects	1,384,011	1,366,826	17,185
Debt Service	169,819	6,555	163,264
Other Purposes	2,351,747	3,325,929	(974,182)
Unrestricted (Deficit)	(91,837)	3,858,525	(3,950,362)
<i>Total Net Position</i>	<u>\$18,754,080</u>	<u>\$22,395,076</u>	<u>(\$3,640,996)</u>

Total net position for governmental activities decreased mainly due to the decrease in accounts receivable, as the result of the Cleveland Clinic settlement due in 2013.

The increase in liabilities was mainly due to the increase in judgments payables offset by paying down of short and long-term debt obligations.

Table 2 shows the changes in net position for the year ended December 31, 2013 for both governmental activities. Revenue and expense comparisons to the year 2012 are also shown.

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**Table 2**  
**Changes in Net Position**

	Governmental Activities		
	2013	2012	Change
<b>Revenues:</b>			
Program Revenues:			
Charges for Services	\$3,880,218	\$4,049,215	(\$168,997)
Operating Grants and Contributions	4,286,611	2,904,098	1,382,513
<i>Total Program Revenues</i>	<u>8,166,829</u>	<u>6,953,313</u>	<u>1,213,516</u>
General Revenues:			
Property Taxes	1,307,688	1,287,237	20,451
Municipal Income Taxes	5,705,017	5,540,980	164,037
Hotel Tax	3,704	4,471	(767)
Grants and Entitlements	3,058,197	2,865,325	192,872
Investment Earnings	268	552	(284)
Gain on Sale of Capital Assets	0	7,231	(7,231)
Other	261,049	1,014,827	(753,778)
<i>Total General Revenues</i>	<u>10,335,923</u>	<u>10,720,623</u>	<u>(384,700)</u>
<i>Total Revenues</i>	<u>18,502,752</u>	<u>17,673,936</u>	<u>828,816</u>
<b>Program Expenses</b>			
General Government	5,975,038	5,174,961	800,077
Security of Persons and Property	9,448,744	10,109,964	(661,220)
Transportation	1,519,559	1,417,001	102,558
Community Development	2,520,689	3,400,142	(879,453)
Leisure Time Activities	215,728	702,267	(486,539)
Basic Utility Services	2,394,050	950,715	1,443,335
Interest and Fiscal Charges	69,940	19,107	50,833
<i>Total Program Expenses</i>	<u>22,143,748</u>	<u>21,774,157</u>	<u>369,591</u>
Change in Net Position	(3,640,996)	(4,100,221)	459,225
<i>Net Position Beginning of Year</i>	<u>22,395,076</u>	<u>26,495,297</u>	<u>(4,100,221)</u>
<i>Net Position End of Year</i>	<u>\$18,754,080</u>	<u>\$22,395,076</u>	<u>(\$3,640,996)</u>

***Governmental Activities***

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

The City's income tax was established to be effective July 1, 1968 at a rate of one percent. This rate was effective until June 30, 1976. Beginning July 1, 1976 the rate was increased to 1.5 percent. On September 1, 1982, the rate increased to 2 percent. It is at that level as of December 31, 2013. The City does not allow any credit of the City's income tax rate for taxes paid to other political subdivisions in Ohio. The decrease in revenues is primarily due to a decrease in miscellaneous revenue from 2012, as well as a decrease in program revenues.

The operations of the City's police and fire departments account for the largest expenses of the governmental activities. The City's police department is a full-time 24-hour a day, 365-days a year department, with a full-time chief and 64 patrolmen and dispatchers. The fire department is staffed by 48 full-time firefighters. The police and fire departments are operated with general fund dollars. The City allocates monies from the inside (unvoted) millage to the police pension and fire pension special revenue funds to pay the employer's portion of retirement and disability benefits to the Ohio Police and Fire Pension Fund.

**City of East Cleveland, Ohio**  
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The City saw decreases in all programs with the exception of general government, transportation, basic utility services and interest and fiscal charges. Community development expenses decreased due to fewer projects in 2013. Transportation includes the costs of maintaining and repairing the City's streets. Maintenance of streets on a regular basis can help delay the need for major street improvement projects in the future. City management continues to diligently plan expenses and seeks grants in order to maintain and improve City services.

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

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

	Governmental Activities			
	Total Cost of Services	Total Cost of Services	Net Cost of Services	Net Cost of Services
	2013	2012	2013	2012
General Government	\$5,975,038	\$5,174,961	\$4,834,188	\$4,308,218
Security of Persons and Property	9,448,744	10,109,964	6,837,862	7,467,916
Transportation	1,519,559	1,417,001	976,152	792,392
Community Development	2,520,689	3,400,142	697,884	925,045
Leisure Time Activities	215,728	702,267	169,486	585,857
Basic Utility Services	2,394,050	950,715	391,407	722,309
Interest and Fiscal Charges	69,940	19,107	69,940	19,107
<b>Total</b>	<b>\$22,143,748</b>	<b>\$21,774,157</b>	<b>\$13,976,919</b>	<b>\$14,820,844</b>

**The City's Funds**

A review of the City's governmental funds provides information on near-term flows and balances of expendable resources and serves as a useful measure of a government's net resources. Governmental fund information can be found beginning on page 14 and is accounted for using the modified accrual basis of accounting.

The City's major governmental funds are the general fund and the emergency medical services special revenue fund. The City's main operational fund has a deficit fund balance of \$4,748,402 at year end. There were many major factors that resulted in these deficit fund balances. Some of these were a high unemployment rate that resulted in lower municipal tax collections, continued decline in property taxes, while other factors include an increase in the security of persons and property, community development and basic utility services programs.

***Budgeting Highlights***

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

Strong emphasis is placed on fund balances. The Finance Director reviews the fund balances on a daily basis. Special attention is paid to the City's most active funds, which are the general, emergency medical services and community development funds. With the general fund supporting many of the major activities

**City of East Cleveland, Ohio**  
*Management's Discussion and Analysis*  
*For the Year Ended December 31, 2013*  
*Unaudited*

such as the police and fire departments, as well as most legislative and executive activities, the general fund is monitored closely for possible revenue shortfalls or over spending by individual departments. Council receives a monthly report showing the beginning fund balance for all funds at the beginning of the year, month-to-date and year-to-date revenues and expenditures, and the current fund balance. Line item reports are reviewed regularly by the Finance Director. The department heads also monitor their appropriations.

For the general fund, the original and final budgeted revenues were \$13,316,788 and \$14,756,853 respectively. Actual revenues of \$12,243,947 were \$2,512,906 lower than the final projections. The original and the final budgeted expenditures were the same at \$13,684,393. Actual expenditures were \$2,362,076 more than the budgeted expenditures. Despite the efforts of the City's leaders to constantly monitor its finances, the City's ending unencumbered cash balance in the general fund was (\$3,291,656).

**Capital Assets and Debt Administration**

*Capital Assets*

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

	Governmental Activities	
	2013	2012
Land	\$920,260	\$920,260
Construction in Progress	0	280,218
Buildings and Improvements	1,014,627	1,012,797
Equipment	258,090	98,144
Vehicles	463,875	437,328
Infrastructure	15,164,324	14,828,861
<b>Totals</b>	<b>\$17,821,176</b>	<b>\$17,577,608</b>

Total capital assets for governmental activities for the City of East Cleveland increased from 2012. The increase was primarily due to additional street improvements, as well as the purchase of additional City vehicles, in 2013. See Note 11 in the financial statements for more information regarding the City's capital assets.

*Debt*

The outstanding debt for the City of East Cleveland as of December 31, 2013 has decreased.

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

	Governmental Activities	
	2013	2012
Capital Leases	\$81,331	\$59,913
Police and Fire Liability	1,307,670	1,344,378
OPWC Loans	3,048,030	3,295,447
Notes Payable	0	411,685
<b>Totals</b>	<b>\$4,437,031</b>	<b>\$5,111,423</b>



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

The Ohio Public Works Commission (OPWC) governmental activities loans are comprised of five separate, zero percent interest loans. The purpose of two the loans are for the construction and improvement of streets. The purpose of six of these loans is for the construction and improvement of various water projects, most notable of which is the 1997 water main project. The loans will be paid over a period of 20 years from the debt service fund.

On December 28, 2005, the City, in accordance with Ohio Revised Code Section 118.17(C), issued \$2,913,600 in local government fund notes at 4.19 percent interest to eliminate deficit funds. The notes were paid off in 2013. See Notes 13 and 14 in the financial statements for more information regarding the City's debt.

### **Current Financial Issues**

The City of East Cleveland remains in Fiscal Emergency as it has experienced a financial shortfall which has resulted in deficit spending in the general fund and other less significant funds at December 31, 2013. To alleviate the financial shortfall, the City has developed a strategy to stabilize its cash shortfall in the aforementioned funds. See Note 21 for further information.

The City also continues to struggle to maintain a revenue base to deliver services to the citizens of East Cleveland. The population of the City continues to decline at an average rate of 323 residents per year from 2000.

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

### **Contacting the City's Finance Department**

This report is intended to provide the citizens and anyone interested in the financial aspects of the City of East Cleveland a general overview of the financial operations. If there are any questions, please feel free to contact Jack Johnson, Finance Director, City of East Cleveland, 14340 Euclid Avenue, East Cleveland, Ohio 44112, Telephone (216) 681-2323, e-mail [jjohnson@eastcleveland.org](mailto:jjohnson@eastcleveland.org).

**City of East Cleveland, Ohio**

*Statement of Net Position*

*December 31, 2013*

	<u>Governmental Activities</u>
<b>Assets</b>	
Equity in Pooled Cash and Cash Equivalents	\$678,999
Accounts Receivable	662,159
Intergovernmental Receivable	2,485,258
Prepaid Items	9,241
Municipal Income Taxes Receivable	3,376,269
Property Taxes Receivable	4,360,717
Nondepreciable Capital Assets	920,260
Depreciable Capital Assets, Net	<u>16,900,916</u>
<i>Total Assets</i>	<u>29,393,819</u>
<b>Liabilities</b>	
Accounts Payable	1,523,179
Accrued Wages	364,054
Contracts Payable	18,500
Intergovernmental Payable	781,458
Accrued Interest Payable	7,079
Judgments Payable	881,536
Matured Compensated Absences Payable	26,037
Long-Term Liabilities:	
Due Within One Year	292,727
Due In More Than One Year	<u>5,682,273</u>
<i>Total Liabilities</i>	<u>9,576,843</u>
<b>Deferred Inflows of Resources</b>	
Property Taxes	<u>1,062,896</u>
<b>Net Position</b>	
Net Investment in Capital Assets	14,940,340
Restricted for:	
Capital Projects	1,384,011
Debt Service	169,819
Other Purposes	2,351,747
Unrestricted (Deficit)	<u>(91,837)</u>
<i>Total Net Position</i>	<u><u>\$18,754,080</u></u>

See accompanying notes to the basic financial statements

**City of East Cleveland, Ohio**  
*Statement of Activities*  
For the Year Ended December 31, 2013

	Program Revenues			Net (Expense)
	Expenses	Charges for Services and Operating Assessments	Operating Grants and Contributions	Revenue and Changes in Net Position
				Governmental Activities
<b>Governmental Activities:</b>				
General Government	\$5,975,038	\$1,140,850	\$0	(\$4,834,188)
Security of Persons and Property	9,448,744	2,211,306	399,576	(6,837,862)
Transportation	1,519,559	191,431	351,976	(976,152)
Community Development	2,520,689	65,002	1,757,803	(697,884)
Leisure Time Activities	215,728	46,242	0	(169,486)
Basic Utility Services	2,394,050	225,387	1,777,256	(391,407)
Interest and Fiscal Charges	69,940	0	0	(69,940)
<i>Total</i>	\$22,143,748	\$3,880,218	\$4,286,611	(13,976,919)
<b>General Revenues</b>				
Property Taxes Levied for:				
General Purposes				1,040,537
Capital Projects				205,289
Police Pension Liability				30,931
Fire Pension Liability				30,931
Municipal Income Taxes Levied for				
General Purposes				5,705,017
Hotel Tax				3,704
Grants and Entitlements not Restricted to Specific Programs				3,058,197
Interest				268
Other				261,049
<i>Total General Revenues</i>				10,335,923
Change in Net Position				(3,640,996)
<i>Net Position Beginning of Year - Restated (See Note 3)</i>				22,395,076
<i>Net Position End of Year</i>				\$18,754,080

See accompanying notes to the basic financial statements

**City of East Cleveland, Ohio**

*Balance Sheet*

*Governmental Funds*

*December 31, 2013*

	General	Emergency Medical Services	Other Governmental Funds	Total Governmental Funds
<b>Assets</b>				
Equity in Pooled Cash and				
Cash Equivalents	\$0	\$0	\$678,999	\$678,999
Accounts Receivable	196,895	465,264	0	662,159
Interfund Receivable	0	657,424	2,743,162	3,400,586
Intergovernmental Receivable	998,229	0	1,487,029	2,485,258
Prepaid Items	9,241	0	0	9,241
Municipal Income Taxes Receivable	3,376,269	0	0	3,376,269
Property Taxes Receivable	3,467,969	0	892,748	4,360,717
<i>Total Assets</i>	<u>\$8,048,603</u>	<u>\$1,122,688</u>	<u>\$5,801,938</u>	<u>\$14,973,229</u>
<b>Liabilities</b>				
Accounts Payable	\$1,324,412	\$41,898	\$156,869	\$1,523,179
Accrued Wages	311,063	22,330	30,661	364,054
Contracts Payable	0	0	18,500	18,500
Intergovernmental Payable	739,911	11,694	29,853	781,458
Matured Compensated Absences Payable	26,037	0	0	26,037
Interfund Payable	2,290,542	0	1,110,044	3,400,586
Judgments Payable	881,536	0	0	881,536
<i>Total Liabilities</i>	<u>5,573,501</u>	<u>75,922</u>	<u>1,345,927</u>	<u>6,995,350</u>
<b>Deferred Inflows of Resources</b>				
Property Taxes	845,295	0	217,601	1,062,896
Unavailable Revenue	6,378,209	465,264	2,086,464	8,929,937
<i>Total Deferred Inflows of Resources</i>	<u>7,223,504</u>	<u>465,264</u>	<u>2,304,065</u>	<u>9,992,833</u>
<b>Fund Balances</b>				
Nonspendable	9,241	0	0	9,241
Restricted	0	0	3,323,499	3,323,499
Committed	0	581,502	1,011	582,513
Unassigned (Deficit)	(4,757,643)	0	(1,172,564)	(5,930,207)
<i>Total Fund Balances (Deficit)</i>	<u>(4,748,402)</u>	<u>581,502</u>	<u>2,151,946</u>	<u>(2,014,954)</u>
<i>Total Liabilities, Deferred Inflows of Resources and Fund Balances</i>	<u>\$8,048,603</u>	<u>\$1,122,688</u>	<u>\$5,801,938</u>	<u>\$14,973,229</u>

See accompanying notes to the basic financial statements

**City of East Cleveland, Ohio**  
*Reconciliation of Total Governmental Fund Balances to  
 Net Position of Governmental Activities  
 December 31, 2013*

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**Total Governmental Funds Balances** (\$2,014,954)

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

Capital assets used in governmental activities are not financial  
 resources and therefore are not reported in the funds. 17,821,176

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

Delinquent Property Taxes	3,297,821
Municipal Income Taxes	2,937,175
Intergovernmental	2,076,605
Charges for Services	465,264
Fines and Forfeitures	151,083
Miscellaneous	1,989

Total 8,929,937

In the statement of net position, interest is accrued on outstanding  
 liabilities, whereas in governmental funds, an interest  
 expenditure is reported when due. (7,079)

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

OPWC Loans	(3,048,030)
Capital Leases	(81,331)
Police and Fire Pension Liability	(1,307,670)
Compensated Absences	(1,537,969)

Total (5,975,000)

*Net Position of Governmental Activities* \$18,754,080

See accompanying notes to the basic financial statements

**City of East Cleveland, Ohio**  
*Statement of Revenues, Expenditures and Changes in Fund Balances*  
*Governmental Funds*  
*For the Year Ended December 31, 2013*

	General	Emergency Medical Services	Other Governmental Funds	Total Governmental Funds
<b>Revenues</b>				
Property Taxes	\$990,285	\$0	\$253,861	\$1,244,146
Hotel Tax	3,704	0	0	3,704
Municipal Income Taxes	5,276,313	0	0	5,276,313
Special Assessments	623	0	0	623
Intergovernmental	2,534,225	0	5,747,177	8,281,402
Fees, Licenses and Permits	381,341	0	62,947	444,288
Fines and Forfeitures	1,804,407	0	255,861	2,060,268
Rentals	20,516	0	11,824	32,340
Charges for Services	1,008,558	526,525	7,177	1,542,260
Interest	207	0	61	268
Other	251,445	0	15,570	267,015
<i>Total Revenues</i>	<u>12,271,624</u>	<u>526,525</u>	<u>6,354,478</u>	<u>19,152,627</u>
<b>Expenditures</b>				
Current:				
General Government	5,631,640	0	46,993	5,678,633
Security of Persons and Property	8,216,452	854,483	398,585	9,469,520
Transportation	887,534	0	413,545	1,301,079
Community Development	243,952	0	2,703,337	2,947,289
Leisure Time Activities	216,605	0	499	217,104
Basic Utility Services	786,911	0	1,600,045	2,386,956
Capital Outlay	0	0	302,944	302,944
Debt Service:				
Principal Retirement	254,638	0	89,862	344,500
Interest and Fiscal Charges	28,259	0	40,551	68,810
<i>Total Expenditures</i>	<u>16,265,991</u>	<u>854,483</u>	<u>5,596,361</u>	<u>22,716,835</u>
<i>Excess of Revenues Over (Under) Expenditures</i>	(3,994,367)	(327,958)	758,117	(3,564,208)
<b>Other Financing Sources (Uses)</b>				
Inception of Capital Lease	0	0	81,793	81,793
<b>Extraordinary Item</b>				
Cleveland Clinic Settlement	1,702,050	0	0	1,702,050
<i>Net Change in Fund Balances</i>	(2,292,317)	(327,958)	839,910	(1,780,365)
<i>Fund Balances (Deficit) Beginning of Year - Restated (See Note 3)</i>				
	(2,456,085)	909,460	1,312,036	(234,589)
<i>Fund Balances (Deficit) End of Year</i>	<u>(\$4,748,402)</u>	<u>\$581,502</u>	<u>\$2,151,946</u>	<u>(\$2,014,954)</u>

See accompanying notes to the basic financial statements

**City of East Cleveland, Ohio**  
*Reconciliation of the Statement of Revenues, Expenditures and Changes  
in Fund Balances of Governmental Funds to the Statement of Activities  
For the Year Ended December 31, 2013*

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**Net Change in Fund Balances - Total Governmental Funds** (\$1,780,365)

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

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

Capital Outlay	831,867	
Depreciation	(588,299)	
Total		243,568

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

Delinquent Property Taxes	63,542	
Municipal Income Taxes	428,704	
Intergovernmental	(936,594)	
Cleveland Clinic Settlement	(1,800,000)	
Charges for Services	(350,644)	
Fines and Forfeitures	151,083	
Other	(5,966)	
Total		(2,449,875)

Other financing sources, such as inception of capital lease, in the governmental funds increase long-term liabilities in the statement of net position. (81,793)

Repayment of long-term liabilities is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net position. 344,500

In the statement of activities interest is accrued whereas in governmental funds, an interest expenditure is reported when due. (1,130)

Some expenses, such as compensated absences, reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds. 84,099

*Change in Net Position of Governmental Activities* (\$3,640,996)

See accompanying notes to the basic financial statements

**City of East Cleveland, Ohio**  
*Statement of Revenues, Expenditures and Changes*  
*In Fund Balance - Budget (Non-GAAP Basis) and Actual*  
*General Fund*  
*For the Year Ended December 31, 2013*

	<u>Budgeted Amounts</u>		<u>Actual</u>	Variance with
	<u>Original</u>	<u>Final</u>		Final Budget Positive (Negative)
<b>Revenues</b>				
Property Taxes	\$1,100,186	\$1,204,226	\$990,920	(\$213,306)
Hotel Tax	4,099	4,486	3,704	(782)
Municipal Income Taxes	5,969,329	6,694,580	5,228,467	(1,466,113)
Special Assessments	689	755	623	(132)
Intergovernmental	2,564,075	2,826,547	2,538,134	(288,413)
Fees, Licenses and Permits	418,501	458,076	378,185	(79,891)
Fines and Forfeitures	2,011,597	2,201,824	1,817,813	(384,011)
Rentals	22,703	24,850	20,516	(4,334)
Charges for Services	895,944	980,669	967,678	(12,991)
Interest	229	251	207	(44)
Other	329,436	360,589	297,700	(62,889)
<i>Total Revenues</i>	<u>13,316,788</u>	<u>14,756,853</u>	<u>12,243,947</u>	<u>(2,512,906)</u>
<b>Expenditures</b>				
Current:				
General Government	4,094,118	4,094,118	4,383,472	(289,354)
Security of Persons and Property	6,911,422	6,911,422	8,378,064	(1,466,642)
Transportation	726,050	726,050	957,481	(231,431)
Community Development	328,113	328,113	281,217	46,896
Leisure Time Activities	393,744	393,744	256,669	137,075
Basic Utility Services	1,040,946	1,040,946	1,294,217	(253,271)
Debt Service:				
Principal Retirement	0	0	477,002	(477,002)
Interest and Fiscal Charges	190,000	190,000	18,347	171,653
<i>Total Expenditures</i>	<u>13,684,393</u>	<u>13,684,393</u>	<u>16,046,469</u>	<u>(2,362,076)</u>
<i>Excess of Revenues Over (Under) Expenditures</i>	(367,605)	1,072,460	(3,802,522)	(4,874,982)
<b>Extraordinary Item</b>				
Cleveland Clinic Settlement	1,700,000	1,700,000	1,702,050	2,050
<i>Net Change in Fund Balance</i>	1,332,395	2,772,460	(2,100,472)	(4,872,932)
<i>Fund Deficit Beginning of Year</i>	(1,578,486)	(1,578,486)	(1,578,486)	0
Prior Year Encumbrances Appropriated	387,302	387,302	387,302	0
<i>Fund Balance (Deficit) End of Year</i>	<u>\$141,211</u>	<u>\$1,581,276</u>	<u>(\$3,291,656)</u>	<u>(\$4,872,932)</u>

See accompanying notes to the basic financial statements



**City of East Cleveland, Ohio**  
*Statement of Revenues, Expenditures and Changes*  
*In Fund Balance - Budget (Non-GAAP Basis) and Actual*  
*Emergency Medical Services Fund*  
*For the Year Ended December 31, 2013*

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
<b>Revenues</b>				
Charges for Services	\$1,190,000	\$650,000	\$619,751	(\$30,249)
<b>Expenditures</b>				
Current:				
Security of Persons and Property	1,141,998	1,141,998	849,955	292,043
<i>Net Change in Fund Balance</i>	48,002	(491,998)	(230,204)	261,794
<i>Fund Balance Beginning of Year</i>	817,237	817,237	817,237	0
Prior Year Encumbrances Appropriated	11,498	11,498	11,498	0
<i>Fund Balance End of Year</i>	<u>\$876,737</u>	<u>\$336,737</u>	<u>\$598,531</u>	<u>\$261,794</u>

See accompanying notes to the basic financial statements

**City of East Cleveland, Ohio**  
*Statement of Fiduciary Assets and Liabilities*  
*Agency Funds*  
*December 31, 2013*

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<b>Assets</b>	
Equity in Pooled Cash and Cash Equivalents	\$11,853
Cash and Cash Equivalents in Segregated Accounts	<u>238,779</u>
<i>Total Assets</i>	<u><u>\$250,632</u></u>
 <b>Liabilities</b>	
Deposits Held and Due to Others	<u><u>\$250,632</u></u>

See accompanying notes to the basic financial statements

**City of East Cleveland, Ohio**  
*Notes to the Basic Financial Statements*  
*For The Year Ended December 31, 2013*

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

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

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

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

Effective January 5, 2012, the Auditor of State declared the City of East Cleveland, Cuyahoga County, to be in a state of fiscal caution in accordance with Section 118.025 (A) of the Ohio Revised Code. The declaration was based on a review of fund financial data at November 30, 2011. The City of East Cleveland had deficit fund balances in the amount of (\$5,872,222) and the deficits exceeded two percent of the estimated revenue of those funds by \$5,451,535.

The Auditor of State declared the City of East Cleveland in fiscal watch on May 23, 2012. This declaration was based upon the failure of the City to provide an acceptable proposal for correcting the conditions that prompted the declaration of fiscal caution.

118.023 (B) of the Ohio Revised Code requires that within 120 days after a declaration of fiscal watch that the Mayor of the municipal corporation declared to be in fiscal watch submit to the Auditor of State a financial recovery plan that identifies the actions to be taken to eliminate the City's fiscal watch conditions including the approximate dates for beginning and completing the actions, and include a five-year forecast reflecting the effects of those actions. Upon review of the financial recovery plan submitted to the Auditor's office, the Auditor of State has determined that the City of East Cleveland has failed to submit a feasible financial recovery plan for correcting the conditions that prompted the declaration of fiscal watch.

On October 9, 2012, the Auditor of State's office declared the City of East Cleveland to be in a state of fiscal emergency in accordance with Section 118.03, Ohio Revised Code. The declaration resulted in the establishment of a Financial Planning and Supervision Commission. The Commission is comprised of the Mayor of the City, Council President, three financial consultants from various corporations and/or organizations within the City and two representatives from the State of Ohio. The City has 120 days after the first meeting of the Commission to approve a financial recovery plan. Once the plan has been adopted, the City's discretion is limited in that all financial activity of the City must be in accordance with the plan. See Note 21 for more information on the City's fiscal emergency status.

***Reporting Entity***

A reporting entity is comprised of the primary government, component units and other organizations that are included to ensure that the financial statements are not misleading. The primary government of the City consists of all funds, agencies, departments, and offices that are not legally separate from the City. For the City of East Cleveland, this includes the departments that provide the following services: police protection, firefighting and prevention, street maintenance and repairs, public improvements, community development (planning and zoning), culture and recreation, refuse collection, sewer and general administrative and

**City of East Cleveland, Ohio**  
*Notes to the Basic Financial Statements*  
*For The Year Ended December 31, 2013*

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legislative services. The City of Cleveland provides water to the residents of the City. The City of Cleveland bills the customers directly. The City contracts with the Northeast Ohio Regional Sewer District to provide sewage treatment for the City.

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

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

The financial statements of the City of East Cleveland have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to local governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial principles. The more significant of the City's accounting policies are described below.

### ***Basis of Presentation***

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

***Government-wide Financial Statements*** The statement of net position and the statement of activities display information about the City as a whole. These statements include the financial activities of the primary government, except for fiduciary funds. The statements distinguish between those activities of the City that are governmental and those that are considered business-type activities. The City, however, has no business-type activities.

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

**City of East Cleveland, Ohio**  
*Notes to the Basic Financial Statements*  
*For The Year Ended December 31, 2013*

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

**Fund Accounting**

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

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

The following are the City's major governmental funds:

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

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

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

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

**Measurement Focus**

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

**City of East Cleveland, Ohio**  
*Notes to the Basic Financial Statements*  
*For The Year Ended December 31, 2013*

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

***Basis of Accounting***

Basis of accounting determines when transactions are recorded in the financial records and reported on the financial statements. Government-wide financial statements and the statements presented for fiduciary funds are prepared using the accrual basis of accounting. Governmental funds use the modified accrual basis of accounting. Differences in the accrual and modified accrual basis of accounting arise in the recognition of revenue, in the recording of deferred outflows/inflows of resources, and in the presentation of expenses versus expenditures.

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

Nonexchange transactions, in which the City receives value without directly giving equal value in return, include income taxes, property taxes, grants, entitlements and donations. On an accrual basis, revenue from income taxes is recognized in the period in which the income is earned. Revenue from property taxes is recognized in the year for which the taxes are levied (See Note 8). Revenue from grants, entitlements and donations is recognized in the year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the year when use is first permitted, matching requirements, in which the City must provide local resources to be used for a specified purpose, and expenditure requirements, in which the resources are provided to the City on a reimbursement basis. On the modified accrual basis, revenue from nonexchange transactions must also be available before it can be recognized.

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

***Deferred Outflows/Inflows of Resources*** In addition to assets, the statements of financial position will sometimes report a separate section for deferred outflows of resources. Deferred outflows of resources, represents a consumption of net position that applies to a future period and will not be recognized as an outflow of resources (expense/expenditure) until then.

In addition to liabilities, the statements of financial position report a separate section for deferred inflows of resources. Deferred inflows of resources represent an acquisition of net position that applies to a future period and will not be recognized as an inflow of resources (revenue) until that time. For the City, deferred inflows of resources include property taxes and unavailable revenue. Property taxes represent amounts for which there is an enforceable legal claim as of December 31, 2013, but which were levied to finance year

**City of East Cleveland, Ohio**  
*Notes to the Basic Financial Statements*  
*For The Year Ended December 31, 2013*

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2014 operations. These amounts have been recorded as a deferred inflow on both the government-wide statement of net position and the governmental fund financial statements. Unavailable revenue is reported only on the governmental funds balance sheet, and represents receivables which will not be collected within the available period. For the City unavailable revenue includes delinquent property taxes, income taxes clinic settlement, charges for services, intergovernmental grants and other. These amounts are deferred and recognized as an inflow of resources in the period the amounts become available.

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

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

***Cash and Cash Equivalents***

To improve cash management, cash received by the City is pooled. Individual fund integrity is maintained through City records. Interest in the pool is presented as "Equity in Pooled Cash and Cash Equivalents". The City had no investments during the year or at year end.

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

Investment procedures are restricted by the provisions of the Ohio Revised Code. Interest revenue credited to the general fund during 2013 amounted to \$207.

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

***Prepaid Items***

Payments made to vendors for services that will benefit periods beyond December 31, 2013, are recorded as prepaid items using the consumption method by recording a current asset for the prepaid amount and reflecting the expenditure/expense in the year in which the services are consumed.

***Capital Assets***

General capital assets are capital assets which are associated with and generally arise from governmental activities. They generally result from expenditures in the governmental funds. General capital assets are reported in the governmental activities column of the government-wide statement of net position but are not reported in the fund financial statements.

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

**City of East Cleveland, Ohio**  
*Notes to the Basic Financial Statements*  
*For The Year Ended December 31, 2013*

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

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

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

***Interfund Balances***

On fund financial statements, receivables and payables resulting from short-term interfund loans are classified as "interfund receivables/payables." These amounts are eliminated in the governmental activities column on the statement of net position.

***Compensated Absences***

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

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

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

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

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

All payables, accrued liabilities and long-term obligations are reported in the government-wide financial statements.

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



**City of East Cleveland, Ohio**  
*Notes to the Basic Financial Statements*  
*For The Year Ended December 31, 2013*

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***Fund Balance***

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

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

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

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

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

***Assigned*** Amounts in the assigned fund balance classification are intended to be used by the City for specific purposes but do not meet the criteria to be classified as restricted or committed. In governmental funds other than the general fund, assigned fund balance represents the remaining amount that is not restricted or committed. These amounts are assigned by City Council. In the general fund, assigned amounts represent intended uses established by City Council or a City official delegated that authority by City Charter or ordinance, or by State Statute. State statute authorizes the finance director to assign fund balance for purchases on order provided such amounts have been lawfully appropriated.

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

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

**City of East Cleveland, Ohio**  
*Notes to the Basic Financial Statements*  
*For The Year Ended December 31, 2013*

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***Net Position***

Net Position represents the difference between all other elements in a statement of financial position. Net investment in capital assets consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowing used for the acquisition, construction or improvement of those assets. Net position is reported as restricted when there are limitations imposed on their use either through constitutional provisions or enabling legislation adopted by the City or through external restrictions imposed by creditors, grantors or laws or regulations of other governments. Net position restricted for other purposes include resources restricted for police and fire, home program and the municipal court.

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

***Extraordinary and Special Items***

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

The City is reporting an extraordinary item during 2013 for Cleveland Clinic Foundation settlement in the amount of \$1,702,050. For more information see Note 9, Cleveland Clinic Settlement.

***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.

***Budgetary Process***

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

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

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

**City of East Cleveland, Ohio**  
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**Note 3 – Changes in Accounting Principles and Restatement of Fund Balance and Net Position**

***Change in Accounting Principles***

For 2013, the City has implemented Governmental Accounting Standard Board (GASB) Statement No. 61, “The Financial Reporting Entity: Omnibus an amendment of GASB 14 and 34.” This statement modifies existing requirements for the assessment of potential component units in determining what should be included in the financial reporting entity and financial reporting entity display and disclosure requirements. The implementation of the statement did not result in any change in the City’s financial statements.

***Restatement of Fund Balance and Net Position***

During 2013, it was determined the City should no longer present water and sewer enterprise funds. The City transferred ownership of the water lines to the City of Cleveland and the sewer lines to the Northeast Ohio Regional Sewer District. The remaining assets are being utilized in the street department. During 2013, it was determined that funds presented as special revenue should have been presented with the general fund. The City also determined that cash with segregated accounts was overstated and cash and cash equivalents, intergovernmental receivable and OPWC loans payable were understated. These restatements had the following effect on fund balance and net position as reported at December 31, 2012:

	<u>General</u>	<u>Emergency Medical Services</u>	<u>Other Governmental Funds</u>	<u>Total</u>
Fund Balances (Deficit) December 31, 2012	(\$1,722,922)	\$909,460	\$1,385,977	\$572,515
Water and Sewer Fund Reclassification	(738,999)	0	0	(738,999)
Other Fund Reclassifications	5,836	0	(5,836)	0
Cash and Cash Equivalents	0	0	32,855	32,855
Cash in Segregated Accounts	0	0	(100,960)	(100,960)
Restated Fund Balance (Deficit) December 31, 2012	<u>(\$2,456,085)</u>	<u>\$909,460</u>	<u>\$1,312,036</u>	<u>(\$234,589)</u>

	<u>Governmental Activities</u>	<u>Business-Type Activities</u>
Fund Position December 31, 2012	\$23,456,371	\$69,713
Water and Sewer Fund Reclassification	(927,560)	(69,713)
Cash and Cash Equivalents	(100,960)	0
Cash in Segregated Accounts	32,855	0
Intergovernmental Receivable	5,966	0
OPWC Loan Payable	(71,596)	0
Restated Net Position December 31, 2012	<u>\$22,395,076</u>	<u>\$0</u>

**City of East Cleveland, Ohio**  
*Notes to the Basic Financial Statements*  
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	Water	Sewer	Total Enterprise
Net Position (Deficit) December 31, 2012	(\$132,443)	(\$62,730)	(\$195,173)
Water and Sewer Fund Reclassification	132,443	62,730	195,173
Restated Net Position December 31, 2012	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>

**Note 4 – Compliance and Accountability**

***Compliance***

The City was placed in fiscal emergency as a result of failing to submit a feasible financial recovery plan to correct the conditions that prompted the declaration of fiscal watch. A portion of that plan was to have included eliminating deficit funds that are contrary to the provisions of Chapter 5705. These violations were cited extensively (repeatedly) in the reports leading up to the declaration of emergency. While in emergency, it is anticipated that these violations will continue until the City regains financial stability. Until that time, only new violations in funds that were not in deficit at the time of emergency declaration will be cited.

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

Fund	Original Estimated Revenues Plus Carryover Balance	Original Appropriations	Excess
<b>Governmental Funds</b>			
<i>Special Revenue Funds:</i>			
Neighborhood Support Program - 3	\$294,458	\$1,028,448	(\$733,990)
City Probation Services Fund	12,141	16,000	(3,859)
<i>Capital Projects Funds:</i>			
Capital Improvements	137,960	521,402	(383,442)

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

Fund	Final Estimated Revenues Plus Carryover Balance	Final Appropriations	Excess
<b>Governmental Funds</b>			
<i>Special Revenue Funds:</i>			
Local Law Enforcement Block Grant	\$0	\$148,173	(\$148,173)
<i>Capital Projects Funds:</i>			
Capital Improvements	56,960	521,402	(464,442)

**City of East Cleveland, Ohio**  
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Contrary to Section 5705.41 (B), Ohio Revised Code, the following funds and departments had expenditures plus encumbrances in excess of appropriations:

Fund/Function	Appropriations	Expenditures Plus Encumbrances	Excess
<b>Special Revenue Funds</b>			
Police Accrued Liability			
Security of People and Property			
Personal Services	\$33,090	\$51,229	(\$18,139)
Fire Accrued Liability			
Security of People and Property			
Personal Services	33,090	42,368	(9,278)
FEMA Grant			
Security of People and Property			
Contractual Services	0	2,500	(2,500)
Capital Outlay	0	90,390	(90,390)
Computer Legalize Fees			
General Government			
Contractual Services	30,374	43,867	(13,493)
Engineering and Building Department			
General Government			
Contractual Services	408	4,424	(4,016)
Neighborhood Support Program - 1			
Community Development			
Contractual Services	33,929	597,058	(563,129)
COPS Universal			
Security of People and Property			
Personal Services	0	168,697	(168,697)
<b>Debt Service Funds</b>			
Bond Retirement			
Debt Service	0	191,029	(191,029)
<b>Capital Projects Funds</b>			
Permanent Improvement			
Capital Outlay	244,491	304,715	(60,224)

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

Fund	Amount
<b>Governmental Funds</b>	
<b>General</b>	\$2,290,542
<b>Special Revenue Funds</b>	
Older Americans	678,076
Courts Community Service	3,190
Domestic Violence	230,081
Community Development	110,616
D.A.R.E.	127
NSP-3	53,867
JAG Police	27,179

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

***Accountability***

The following funds had deficit fund balances as of December 31, 2013:

<u>Fund</u>	<u>Amount</u>
General Fund	\$4,748,402
Special Revenue Funds	
Older Americans	675,629
Courts Community	3,190
Community Development	174,943
Domestic Violence	233,830
DARE	127
NSP-3	57,666
JAG Police	27,179

The general fund concluded 2013 with a deficit fund balance of \$4,748,402. The City has experienced a financial shortfall which has resulted in deficit spending in the general fund. The City is working on a plan to alleviate the financial shortfall.

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

**Note 5 – Fund Balances**

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

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Fund Balances	General	Emergency Medical Services	Other Governmental Funds	Total
<u>Nonspendable:</u>				
Prepays	\$9,241	\$0	\$0	\$9,241
<u>Restricted for:</u>				
Street Improvements	0	0	313,609	313,609
Police Programs	0	0	388,631	388,631
Fire Programs	0	0	117,271	117,271
Drug and Alcohol Enforcement	0	0	35,358	35,358
Parks and Recreation	0	0	693	693
Norfolk Southern & CSX	0	0	181,236	181,236
Emergency Management	0	0	72,314	72,314
Special Projects Court	0	0	604,646	604,646
Special Purpose	0	0	4,504	4,504
Demographic Employment Opportunities	0	0	1,669	1,669
Court Computers	0	0	271,476	271,476
Engineering and Building	0	0	29,072	29,072
NSP-1 Program	0	0	578	578
Strategic Master Plan	0	0	21,987	21,987
S.T.E.P. Project	0	0	27,497	27,497
Block Grant	0	0	12,205	12,205
City Probation	0	0	41,497	41,497
Capital Improvements	0	0	296,305	296,305
Waterline Maintenance	0	0	177,211	177,211
Transfer Station Improvements	0	0	548,842	548,842
Debt Service Payments	0	0	176,898	176,898
<b>Total Restricted</b>	<b>0</b>	<b>0</b>	<b>3,323,499</b>	<b>3,323,499</b>
<u>Committed to:</u>				
Ambulance Services	0	581,502	0	581,502
Wall of Fame Costs	0	0	1,011	1,011
<b>Total Committed</b>	<b>0</b>	<b>581,502</b>	<b>1,011</b>	<b>582,513</b>
Unassigned (Deficit)	(4,757,643)	0	(1,172,564)	(5,930,207)
<b>Total Fund Balances (Deficit)</b>	<b>(\$4,748,402)</b>	<b>\$581,502</b>	<b>\$2,151,946</b>	<b>(\$2,014,954)</b>

**Note 6 - Budgetary Basis of Accounting**

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

**City of East Cleveland, Ohio**  
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1. Revenues are recorded when received in cash (budget) as opposed to when susceptible to accrual (GAAP).
2. Expenditures are recorded when paid in cash (budget) as opposed to when the liability is incurred (GAAP).
3. Encumbrances are treated as expenditures (budget) rather than as restricted, committed or assigned fund balance (GAAP).
4. Budgetary revenues and expenditures of the water and sewer funds are classified to general fund for GAAP Reporting.

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

Net Change in Fund Balance		Emergency Medical Services
	<u>General</u>	<u>          </u>
GAAP Basis	(\$2,292,317)	(\$327,958)
Net Adjustment for Revenue Accruals	25,314	93,226
Perspective Differences	(52,266)	0
Net Adjustment for Expenditures Accruals	2,306,145	63,421
Principal Retirement	(364,200)	0
Encumbrances	<u>(1,723,148)</u>	<u>(58,893)</u>
Budget Basis	<u><u>(\$2,100,472)</u></u>	<u><u>(\$230,204)</u></u>

**Note 7 – Deposits and Investments**

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

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

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

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



**City of East Cleveland, Ohio**  
*Notes to the Basic Financial Statements*  
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Interim monies held by the City can be deposited or invested in the following securities:

1. United States Treasury bills, bonds, notes, or any other obligation or security issued by the United States Treasury, or any other obligation guaranteed as to principal and interest by the United States;
2. Bonds, notes, debentures, or any other 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. No-load money market mutual funds consisting exclusively of obligations described in division (1) or (2) and repurchase agreements secured by such obligations provided that investments in securities described in this division are made only through eligible institutions;
4. Time certificates of deposit or savings or deposit accounts including, but not limited to, passbook accounts;
5. Bonds and other obligations of the State of Ohio;
6. The State Treasurer's investment pool (STAROhio);
7. Certain banker's acceptances and commercial paper notes for a period not to exceed one hundred eighty days in an amount not to exceed 25 percent of the interim monies available for investment at any one time if training requirements have been met; and
8. Written repurchase agreements in the securities described in (1) or (2) provided 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 the term of the agreement must not exceed thirty days.

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 custodian.

### ***Deposits***

***Custodial Credit Risk*** Custodial credit risk for deposits is the risk that in the event of bank failure, the City will not be able to recover deposits or collateral securities that are in possession of an outside party. At year end, \$1,063,617 of the City's bank balance of \$1,313,941 was uninsured and uncollateralized. Although the securities were held by the pledging financial institutions' trust department and all 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.

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

**Note 8 - Receivables**

Receivables at December 31, 2013, consisted primarily of municipal income taxes, property taxes, intergovernmental receivables arising from entitlements and shared revenues, and accounts (billings for user charged services, including unbilled utility services). All receivables are expected to be collected within one year except property taxes, income taxes and accounts receivable which have significant delinquencies and are expected to be collected over several years.

***Property Taxes***

Property taxes include amounts levied against all real, public utility and tangible personal property located in the City. Property tax revenue received during 2013 for real and public utility property taxes represents collections of the 2012 taxes.

2013 real property taxes are levied after October 1, 2013 on the assessed value as of January 1, 2013, the lien date. Assessed values are established by state law at 35 percent of appraised market value. 2013 real property taxes are collected in, and intended to finance, 2014.

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

Public utility tangible personal property currently is assessed at varying percentages of true value; public utility real property is assessed at 35 percent of true value. 2013 public utility property taxes which became a lien December 31, 2012, are levied after October 1, 2013, and are collected in 2014 with real property taxes.

The full tax rate for all City operations for the year ended December 31, 2013, was \$12.70 per \$1,000 of assessed value. The assessed values of real and tangible personal property upon which 2013 property tax receipts were based are as follows:

Real Estate	
Residential/Agriculture	\$90,628,370
Commercial Industrial/Public Utility	46,282,460
Tangible Personal Property	
Public Utility	<u>9,632,370</u>
Total Valuation	<u><u>\$146,543,200</u></u>

The County Fiscal Officer collects property taxes on behalf of all taxing districts in the County, including the City of East Cleveland, and periodically remits to the City its portion of the taxes collected. Property taxes receivable represents real property taxes, public utility taxes and outstanding delinquencies which are measurable as of December 31, 2013 and for which there is an enforceable legal claim. In governmental

**City of East Cleveland, Ohio**  
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funds, the portion of the receivable not levied to finance 2013 operations is offset to deferred inflows of resources – property taxes. On an accrual basis, collectible delinquent property taxes have been recorded as a receivable and revenue, while on a modified accrual basis the revenue has been reported as deferred inflows of resources – unavailable revenue.

***Income Taxes***

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

***Intergovernmental Receivables***

A summary of intergovernmental receivables follows:

Intergovernmental Receivables	Amount
<b>Governmental Activities</b>	
CDBG/Home Program Grants	\$1,280,092
Local Government	897,449
Homestead and Rollback	123,969
Gasoline Cents per Gallon	94,255
Gasoline Tax	31,697
Permissive Tax	29,376
Motor Vehicle Tax	16,745
Title III Grant	9,483
Coit Avenue Reimbursement	1,989
Hotel Motel Bed Tax	203
<i>Grand Total</i>	<b>\$2,485,258</b>

**Note 9 – Cleveland Clinic Settlement**

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

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

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During 2013, the City requested and received an advance on the future payments for a total of \$1,702,050 received from the Clinic. As of December 31, 2013, the City has received all of the \$7,800,000 from the Clinic.

**Note 10 – Leases**

***Capital Leases***

The City has capital leases for three Toshiba copiers, two leases with Metrolease for copiers, a lease for 10 police vehicles and three leases for copiers. Capital lease payments are reflected as debt service expenditures in various funds on the basic financial statements. The governmental equipment has been capitalized in the amount of \$526,970, the present value of the minimum lease payments at the inception of the leases.

<b>Governmental Activities:</b>	
Assets	
Vehicles	\$461,185
Equipment	65,785
<i>Total Capital Assets, Being Depreciated:</i>	526,970
Accumulated Depreciation	
Vehicles	393,024
Equipment	60,936
<i>Total Accumulated Depreciation</i>	453,960
<i>Governmental Activities Capital Assets, Net</i>	\$73,010

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, 2013.

Year	Amount
2014	\$21,834
2015	19,275
2016	19,275
2017	19,241
2018	15,473
	95,098
Less: Amount representing interest	(13,767)
Present Value of minimum lease payments	\$81,331

**Operating Leases**

The City of has entered into two operating leases. The first one is with City Management Group, Limited, for the purpose of leasing 3,300 square feet of a building in the City for storage facilities. This is a cancelable lease that is renewed annually. For 2013, the City paid rental costs of \$2,400. The City must provide the lessor written notice at least 90 days prior to termination of the lease. The second one is with Brandon King/King Management Group (KMG), Limited, for the purpose of leasing 1,500 square feet of a building in the City to house the Domestic Violence Department. This is a cancelable lease that is renewed annually. The City pays \$2,795 per quarter. For 2013, the City paid rental costs of \$15,581. The City must provide the lessor written notice at least 90 days prior to termination of the lease.

**City of East Cleveland, Ohio**  
*Notes to the Basic Financial Statements*  
For The Year Ended December 31, 2013

**Note 11 - Capital Assets**

Capital asset activity for the year ended December 31, 2013, was as follows:

	Balance 12/31/2012	Additions	Deductions	Balance 12/31/2013
<b>Governmental Activities</b>				
<i>Capital Assets not being Depreciated:</i>				
Land	\$920,260	\$0	\$0	\$920,260
Construction in Progress	280,218	0	(280,218)	0
<i>Total Capital Assets not being Depreciated</i>	<u>1,200,478</u>	<u>0</u>	<u>(280,218)</u>	<u>920,260</u>
<i>Capital Assets being Depreciated:</i>				
Buildings and Improvements	4,400,375	52,732	0	4,453,107
Equipment	3,236,614	224,610	0	3,461,224
Vehicles	4,178,303	127,176	0	4,305,479
Infrastructure	22,283,394	707,567	0	22,990,961
<i>Total Capital Assets being Depreciated</i>	<u>34,098,686</u>	<u>1,112,085</u>	<u>0</u>	<u>35,210,771</u>
<i>Less Accumulated Depreciation:</i>				
Buildings and Improvements	(3,387,578)	(50,902)	0	(3,438,480)
Equipment	(3,138,470)	(64,664)	0	(3,203,134)
Vehicles	(3,740,975)	(100,629)	0	(3,841,604)
Infrastructure	(7,454,533)	(372,104)	0	(7,826,637)
<i>Total Accumulated Depreciation</i>	<u>(17,721,556)</u>	<u>(588,299)</u>	<u>0</u>	<u>(18,309,855)</u>
Total Capital Assets being Depreciated, Net	<u>16,377,130</u>	<u>523,786</u>	<u>0</u>	<u>16,900,916</u>
Governmental Activities Capital Assets, Net	<u>\$17,577,608</u>	<u>\$523,786</u>	<u>(\$280,218)</u>	<u>\$17,821,176</u>

Depreciation expense was charged to governmental functions as follows:

General Government	\$277,635
Security of Persons and Property	72,691
Leisure Time Activities	3,534
Basic Utility Services	110
Community Environment	3,518
Transportation	230,811
Total Depreciation Expense	<u>\$588,299</u>

**Note 12 – Employee Benefits**

***Compensated Absences***

All eligible employees receive 15 sick days per year. Unused sick leave benefits are allowed to accumulate indefinitely. Upon retirement, non-bargaining unit employees and policemen receive payment for one-fourth of accumulated sick leave up to 240 hours. The contracts for Police, Fire and Union Employees, made have different language as it relates to sick days; please read the respect contract to determine how many sick days each employees in these category are allowed. Employees can hold up to two years' worth of vacation leave. Because of extenuating circumstances, Police and Fire employees may have been allowed to hold more than two years' worth of vacation leave. Upon retirement, termination or death of the employee, vacation is paid for time the employee have earned but not used.

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

Kaiser Permanente provides medical/surgical coverage to eligible City employees. Employees are able to choose from two options with differing deductibles, co-pays and service options. The cost for options one HMO is \$608.15 per month for individual coverage and \$1,521.04 per month for family coverage. Option two is \$661.82 per month for individual coverage and \$1,655.30 per month for family coverage. Medical Mutual provides dental and vision coverage. The cost for dental coverage is \$19.56 for individual coverage and \$54.93 for family coverage. The cost for vision is \$7.26 for individual coverage and \$18.16 for family coverage. Each union or employees that are under various contracts with the City may have different arrangements; please review the various contract as it relates to Health Care Benefits.

Life insurance is offered to employees through United States Life Insurance Company. Police receive up to \$50,000 coverage for \$.15/\$1,000 coverage per month; firemen receive up to \$30,000 coverage for \$.15 per/\$1,000 coverage per month. The fire chief and police chief receive up to \$50,000 coverage for \$.15 per/\$1,000 coverage per month. For police, the City pays the full amount. For fire, the City pays half the monthly premium and the employee pays the other half. All other City employees pay \$.15 per \$1,000 of coverage per month up to a maximum of \$50,000.

**Note 13 – Local Government Fund Notes**

On December 28, 2005, the City, in accordance with Ohio Revised Code Section 118.17(C), issued \$2,913,600 in local government fund notes at 4.19 percent interest to eliminate deficit funds. The note proceeds were transferred to the older American, community development, and special purpose grant special revenue funds and to the sewer fund. The notes will be repaid with local government monies. A schedule of changes during 2013 follows:

	Outstanding 12/31/2012	Additions	(Reductions)	Outstanding 12/31/2013
<b>Governmental Activities</b>				
Local Government Fund Notes	\$411,685	\$0	(\$411,685)	\$0

**Note 14 – Long-Term Obligations**

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

Debt Issue	Original Issue	Year of Maturity
<b>Governmental Activities</b>		
OPWC Loans:		
1994 Water Main Project Phase I	\$393,740	2014
1997 Water Main Project Phase II	406,900	2017
2000 Brunswick Road Water Main Improvement Project	23,164	2019
2000 Forest Hills Water Main Project	25,442	2020
2003 Euclid Avenue Rehabilitation	2,951,444	2028
2006 Windermere/Idlewood/Knowles Road	977,988	2028
2008 Belmore Street Waterline Repair Project	102,014	2030
2011 Coit Avenue Sanitary Sewer Replacement	79,551	2030

**City of East Cleveland, Ohio**  
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All of the loans were obtained through the Ohio Public Works Commission (OPWC) and are interest free.

A schedule of changes in long-term obligations of the City during 2013 follows:

	Outstanding 12/31/2012	Additions	(Reductions)	Outstanding 12/31/2013	Due in One Year
<b>Governmental Activities</b>					
OPWC Loans:					
Water Main Project Phase I	\$29,532	\$0	(\$19,687)	\$9,845	\$9,845
Water Main Project Phase II	88,881	0	(19,751)	69,130	19,752
Brunswick Road Water Main Improvement Project	8,108	0	(1,158)	6,950	1,158
Forest Hills Water Main Project	9,542	0	(1,272)	8,270	1,272
Euclid Avenue Rehabilitation	2,213,584	0	(147,572)	2,066,012	147,572
Windemere/ Idlewood/ Knowles Road	782,392	0	(48,899)	733,493	48,899
Belmore Road Waterline Repair Project	91,812	0	(5,100)	86,712	5,100
Coit Avenue Sanitary Sewer Replacement	71,596	0	(3,978)	67,618	3,978
Total OPWC Loans	3,295,447	0	(247,417)	3,048,030	237,576
Capital Leases	59,913	81,793	(60,375)	81,331	16,863
Police and Fire Pension Liability	1,344,378	0	(36,708)	1,307,670	38,288
Compensated Absences	1,622,068	8,171	(92,270)	1,537,969	0
Total Governmental Activities	\$6,321,806	\$89,964	(\$436,770)	\$5,975,000	\$292,727

OPWC loans will be paid from the debt service fund. Capital leases will be paid with various revenues from the general fund and the permanent improvement capital projects fund. The police and fire pension liability will be paid from the police accrued liability and fire accrued liability funds. Compensated absences will be paid from the general, older Americans, community development block grant, and domestic violence funds.

The City's overall legal debt margin was \$15,554,562 at December 31, 2013.

Principal and interest requirements to retire long-term obligations outstanding at December 31, 2013, are as follows:

	Governmental Activities		
	Police and Fire Liability		OPWC Loans
	Principal	Interest	Principal
2014	\$38,288	\$55,308	\$237,576
2015	39,936	53,660	227,731
2016	41,655	51,941	227,731
2017	43,449	50,148	217,853
2018	45,319	48,277	207,979
2019-2023	257,597	210,385	1,030,817
2024-2028	318,038	149,944	880,184
2029-2033	392,666	75,316	18,159
2034-2035	130,722	5,523	0
Total	\$1,307,670	\$700,502	\$3,048,030

**City of East Cleveland, Ohio**  
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**Note 15 – Defined Benefit Pension Plans**

***Ohio Public Employees Retirement System***

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

OPERS provides retirement, disability, survivor and death benefits, and annual cost-of-living adjustments to members of the Traditional Pension and Combined Plans. Members of the Member-Directed Plan do not qualify for ancillary benefits. Authority to establish and amend benefits is provided by Chapter 145 of the Ohio Revised Code. OPERS issues a stand-alone financial report. Interested parties may obtain a copy by visiting <https://www.opers.org/investments/cafr.shtml>, writing to OPERS, 277 East Town Street, Columbus, OH 43215-4642, or by calling 614-222-5601 or 800-222-7377.

Funding Policy – The Ohio Revised Code provides statutory authority for member and employer contributions and currently limits the employer contribution to a rate not to exceed 14 percent of covered payroll for state and local employer units. Member contribution rates, as set forth in the Ohio Revised Code, are not to exceed 10 percent of covered payroll for members in state and local divisions. For the year ended December 31, 2013, members in state and local classifications contributed 10.0 percent of covered payroll. Members in the state and local divisions may participate in all three plans. For 2013, member and employer contribution rates were consistent across all three plans.

The City's 2013 contribution rate was 14.0 percent. The portion of employer contributions used to fund pension benefits is net of post-employment health care benefits. For 2013, the portion of employer contribution allocated to health care was 1.00 percent for members in the Traditional Plan and the Combined Plan. Effective January 1, 2014, the portion of employer contributions allocated to health care increased to 2 percent. Employer contribution rates are actuarially determined.

The City's required contributions for pension obligations to the Traditional Pension and Combined Plans for the years ended December 31, 2013, 2012, and 2011 were \$361,076, \$407,961, and \$445,797, respectively. For 2013, 96.00 percent has been contributed with the balance being reported as an intergovernmental payable. The full amount has been contributed for 2012 and 2011. There were no contributions to the Member-Directed Plan for 2013 made by the City or the plan members.

***Ohio Police and Fire Pension Fund***

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



**City of East Cleveland, Ohio**  
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Funding Policy – Employer and employee contribution rates are set by the Ohio Revised Code. From January 1, 2013, thru July 1, 2013, plan members were required to contribute 10 percent of their annual covered salary. From July 2, 2013, thru December 31, 2013, plan members were required to contribute 10.75 percent of their annual covered salary. Throughout 2013, employers were required to contribute 19.5 percent and 24 percent respectively for police officers and firefighters.

The OP&F Pension Fund is authorized by the Ohio Revised Code to allocate a portion of the employer contributions to retiree health care benefits. For January 1 2013, thru May 31, 2013, the portion of employer contributions used to fund pension benefits was 14.81 percent of covered payroll for the police officers and 19.31 percent of covered payroll for firefighters. For June 1, 2013, thru December 31, 2013, the portion of employer contributions used to fund pension benefits was 16.65 percent of covered payroll for police officers and 21.15 percent of covered payroll for firefighters. The City’s contributions to OP&F for police and firefighters were \$346,215 and \$457,899 for the year ended December 31, 2013, \$317,618 and \$472,885 for the year ended December 31, 2012, and \$278,181 and \$442,952 for the year ended December 31, 2011, respectively. For 2013, 95.41 percent for police and 96.42 percent for firefighters has been contributed with the balance for both police and firefighters being reported as an intergovernmental payable. The full amount has been contributed for 2012 and 2011.

## **Note 16 – Postemployment Benefits**

### ***Ohio Public Employees Retirement System***

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

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

In order to qualify for post-employment health care coverage, age and service retirees under the Traditional Pension and Combined Plans must have 10 or more years of qualifying Ohio service credit. Health care coverage for disability benefit recipients and qualified survivor benefit recipients is available. The Ohio Revised Code permits, but does not mandate, OPERS to provide health care benefits to its eligible members and beneficiaries. Authority to establish and amend benefits is provided in Chapter 145 of the Ohio Revised Code.

Disclosures for the health care plan are presented separately in the OPERS financial report which may be obtained by visiting <https://www.opers.org/investments/cafr.shtml>, writing to OPERS, 277 East Town Street, Columbus, Ohio 43215-4642, or by calling 614-222-5601 or 800-222-7377.

Funding Policy – The post-employment health care plan was established under, and is administered in accordance with, Internal Revenue Code 401(h). The Ohio Revised Code provides the statutory authority requiring public employers fund post-employment health care through their contributions to OPERS. A portion of each employer’s contribution to the traditional or combined plans is set aside for the funding of post-employment health care.

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Employer contribution rates are expressed as a percentage of the covered payroll of active members. In 2013, state and local government employers contributed at a rate of 14.0 percent of covered payroll. These are the maximum employer contribution rates permitted by the Ohio Revised Code.

Each year, the OPERS Retirement Board determines the portion of the employer contribution rate that will be set aside for funding of post-employment health care benefits. For 2013, the portion of employer contributions allocated to health care for members in the Traditional Plan and the Combined Plan was 1.0 percent. Effective January 1, 2014, the portion of employer contributions allocated to health care was raised to 2 percent for both plans, as recommended by OPERS actuary.

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

The City's contributions allocated to fund post-employment health care benefits for the years ended December 31, 2013, 2012, and 2011 were \$144,431, \$163,184, and \$178,319, respectively. For 2013, 96.00 percent has been contributed with the balance being reported as an intergovernmental payable. The full amount has been contributed for 2012 and 2011.

Changes to health care plan were adopted by the OPERS Board of Trustees on September 19, 2012, with a transition plan commencing January 1, 2014. With the recent passage of pension legislation under SB 343 and the approval health care changes, OPERS expects to consistently allocate four percent of the employer contributions toward the health care fund after the end of the transition period.

***Ohio Police and Fire Pension Fund***

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

OP&F provides access to post-retirement health care coverage for any person who receives or is eligible to receive a monthly service, disability, or survivor benefit check or is a spouse or eligible dependent child of such person. The health care coverage provided by OP&F meets the definition of an Other Post-Employment Benefit (OPEB) as described in GASB Statement No. 45.

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

OP&F issues a publicly available financial report that includes financial information and required supplementary information for the plan. That report may be obtained by writing to OP&F, 140 East Town Street, Columbus, Ohio 43215-5164. That report is also available of OP&F's website at [www.op-f.org](http://www.op-f.org).

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

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

The Board of Trustees is authorized to allocate a portion of the total employer contributions made into the pension plan to Section 115 trust and the Section 401(h) account as the employer contribution for retiree health care benefits. For January 1, 2013, thru May 31, 2013, the employer contribution allocated to the health care plan was 4.69 percent of covered payroll. For June 1, 2013, thru December 31, 2013, the employer contribution allocated to the health care plan was 2.85 percent of covered payroll. The amount of employer contributions allocated to the health care plan each year is subject to the Trustees' primary responsibility to ensure that pension benefits are adequately funded and is limited by the provisions of Section 115 and 401(h).

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

The City's contributions to OP&F which were allocated to fund post-employment health care benefits for police and firefighters were \$183,290 and \$179,178 for the year ended December 31, 2013, \$168,151 and \$185,042 for the year ended December 31, 2012, and \$147,272 and \$173,329 for the year ended December 31, 2011, respectively. For 2013, 95.41 percent for police and 96.42 percent for firefighters has been contributed with the balance for both police and firefighters being reported as an intergovernmental payable. The full amount has been contributed for 2012 and 2011.

## **Note 17 – Contingencies**

### ***Grants***

The City receives financial assistance from federal and state agencies in the form of grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and is subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the general fund or other applicable funds. However, in the opinion of management, any such disallowed claims will not have a material adverse effect on the overall financial position of the City at December 31, 2013.

### ***Litigation***

Legal proceedings covering a wide range of matters are pending or threatened against the City. All such cases are, and will continue to be, vigorously defended. It is possible that there could be adverse developments in pending cases against the City and that the results of operations, cash flows or financial position could be materially affected in a particular year by an unfavorable outcome or settlement of certain pending litigation. Nevertheless, although litigation is subject to uncertainty, the City believes, that they have valid defenses to the litigation pending, as well as valid bases for appeal of adverse verdicts. However, the City may enter into settlement discussions in particular cases if they believe it is in their best interests to do so.

**City of East Cleveland, Ohio**  
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The following lists the cases for which the City has recorded a liability as of December 31, 2013 as a result of judgments against the City.

***East Cleveland Firefighters IAFF v. City of East Cleveland*** The East Cleveland Firefighters IAFF brought an application for order to confirm and enforce arbitration award with interest and attorneys' Fees. The Court ordered the City to 1) Pay total of \$73,443.36 in twenty-four monthly payments of \$3,060.14 to Plaintiff IAFF and 2) the City of East Cleveland is ordered to pay post judgment interest at the statutory rate of 4 percent commencing June 1, 2016 until the City complies with the Arbitration award. The City has accrued \$73,443 as a judgments payable on the December 31, 2013 financial statements.

***Fitzgerald v. City of East Cleveland, et al.*** Makeena Fitzgerald brought a lawsuit against the City alleging false arrest and imprisonment. The jury found for the plaintiff and against the City of East Cleveland in the amount of \$100,000 as to malicious prosecution; the jury found for the plaintiff and against the City in the amount of \$100,000 as to intentional infliction of emotional distress. The City arrived at a settlement with the plaintiff in 2015 for \$170,000 to be paid over 6 years with \$25,000 to be paid annually. As of December 31, 2013, \$170,000 has been accrued as a judgments payable.

***Savage v. City of East Cleveland*** During 2009, Nestor filed bankruptcy and claimed the City East Cleveland owed Nestor \$638,093 based upon a contract stemming from 2006. The Rhode Island Trustee for the bankruptcy case sued and got a judgment against the City for that amount in 2014. As of December 31, 2013, the City has accrued \$638,093 as a judgments payable on the financial statements

The City records provisions in the financial statements for pending litigation when it is determined that an unfavorable outcome is probable and the amount of the loss can be reasonably estimated. At the present time, while it is reasonably possible that an unfavorable outcome in a case may occur, after assessing the information available to it (i) management has not concluded that it is probable that a loss has been incurred; and (ii) management is unable to estimate the possible loss or range of loss; accordingly, no estimated loss has been accrued in the financial statements for unfavorable outcomes in the following cases.

***Black v. City of East Cleveland, et al.*** A case was filed in which Arnold Black alleged an East Cleveland police officer of punching him during a drug/traffic stop then unlawfully detaining him for three days at the City of East Cleveland jail in 2011. While the case was on appeal for some interlocutory issues, the trial court proceeded to a jury trial without notifying the City's Legal Counsel. The Jury reached a verdict of \$22 Million. The case is currently on appeal with the Court of Appeals and the City anticipates the verdict being vacated and remanded to the Court of Common Pleas.

***Hunt v. City of East Cleveland, et al.*** During 2009, Charles Hunt entered an intersection and was struck by an East Cleveland police car on an emergency call. Mr. Hunt and his passenger sustained serious injuries and the jury awarded a combined verdict of \$8,617,180. However, due to serious flaws in the conduct of the trial by a visiting judge, the City has appealed this verdict and anticipates it is not probable that the jury award will be sustained.

***Wheatt, et al. v. City of East Cleveland, et al.*** This case involved three juveniles who were convicted as adults with aggravated murder in 1995. In 2016, after serving almost twenty years, a County Judge dismissed their case without prejudice. Upon their release from prison, they filed a wrongful imprisonment case for \$60 million with the federal court alleging that their constitutional rights were violated by the participating law enforcement officers as well as the County Prosecutor's Office. Due to a recent ruling by the U.S. Supreme Court, the defense of "Qualified Immunity," is applicable to protect the City from liability.

**City of East Cleveland, Ohio**  
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***Derrico v. Moore, et al.*** The case alleges that three City police officers mistreated drug dealers upon their arrests during the period from 2007 until 2015. The three City officers have been arrested and subsequently fired from City employment. The City filed a Motion to Dismiss for failure to state a claim. The City anticipates any compensation will be paid from the Court of Claims thereby relieving the City of responsibility.

**Note 18 – Interfund Balances**

Interfund balances at December 31, 2013 consisted of the following:

Interfund Payable	Interfund Receivable		Total
	Emergency Medical Services	Other Governmental Funds	
Major Funds:			
General Fund	\$657,424	\$1,633,118	\$2,290,542
Community Development	0	110,616	110,616
Other Governmental Funds	0	999,428	999,428
Total Governmental Funds	<u>\$657,424</u>	<u>\$2,743,162</u>	<u>\$3,400,586</u>

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

**Note 19 – Risk Management**

The City is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; injuries to employees natural disasters. During 2013, the City contracted with Scottsdale Indemnity Company for blanket building and business personal property general liability insurance with \$20,720,662 coverage.

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

The City is self-insured for vehicle liability coverage. The City accounts for vehicle claims in the general fund. There are two outstanding claims at December 31, 2013; however, neither was settled by year-end, so there is no claims liability reported for 2013.

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

**Note 20 –Significant Commitments**

***Contractual Commitments***

At December 31, 2013, the City's significant contractual commitments consisted of street lighting installation and wiring projects. The contract amount for the projects amounts to \$130,000 and the City has not made any payments as of December 31, 2013.

**City of East Cleveland, Ohio**  
*Notes to the Basic Financial Statements*  
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***Encumbrances***

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

***Governmental Funds:***

General	\$1,723,148
Emergency Medical Services	58,893
Other Governmental Funds	<u>448,524</u>
Total Governmental Funds	<u><u>\$2,230,565</u></u>

**Note 21 – Fiscal Emergency**

The Auditor of State’s office placed the City in fiscal emergency on October 9, 2012 in accordance with Section 118.03, Ohio Revised Code. The declaration resulted in the establishment of a Financial Planning and Supervision Commission. The Commission is comprised of the Mayor of the City, Council President, three financial consultants from various corporations and/or organizations within the City and two representatives from the State of Ohio.

In accordance with Section 118.06 of the Ohio Revised Code, the City is required to submit to the Commission a financial recovery plan for the City which outlines the measures to be taken to eliminate the fiscal emergency conditions.

A city is placed into fiscal emergency when any one of six conditions is present. For the City of East Cleveland, one of the six conditions was present at the date of the Auditor of State’s determination. The condition present in the City was deficit fund balances. Under Section 118.03(A)(5) of the Revised Code, the aggregate sum of all deficit funds at the end of the preceding fiscal year, less any transferable balance in the general fund and in any special revenue fund that exceed one-sixth of the general fund budget and the receipts of the deficit funds is a fiscal emergency condition. As of November 30, 2011, the City had deficit fund balances in the amount of (\$5,872,222) and the deficits exceeded two percent of the estimated revenue of those funds by \$5,451,535.

The City currently has a recovery plan in place. This plan will attempt to help the City make steps to regain financial stability. The plan includes a revenue generating action as well as several expenditure reduction actions.

**Note 22 – Related Party Transaction**

The City leases 1,500 square feet of a building owned by the King Management Group to house the Domestic Violence department. King Management Group is owned by Brandon King, a City Councilman. During 2013, the City paid rental costs of \$15,581.



CPAs and Business Advisors

*Where Relationships Count.*

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

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

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the City of East Cleveland, Ohio (the “City”), as of and for the year ended December 31, 2013, and the related notes to the financial statements, which collectively comprise the City’s basic financial statements and have issued our report thereon dated November 16, 2017, wherein we qualified our opinion on the governmental activities because certain accounting records supporting the valuation of compensated absences were not presented for audit. Furthermore, we noted in Note 21, on October 9, 2012, the Auditor of State declared the City to be in a state of fiscal emergency.

### **Internal Control over Financial Reporting**

In planning and performing our audit of the financial statements, we considered the City’s internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City’s internal control. Accordingly, we do not express an opinion on the effectiveness of the City’s internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying schedule of findings and questioned costs, we identified certain deficiencies in internal control that we consider to be material weaknesses.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the City’s financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiencies described in the accompanying schedule of findings and questioned costs to be material weaknesses: items 2013-001 through 2013-006.

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Independent Member of  
Geneva Group International



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

### **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the City's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying schedule of findings and questioned costs as items 2013-007 through 2013-008.

### **City's Response to Findings**

The City's responses to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs and corrective action plan. The City's responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

### **Purpose of this Report**

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the City's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

*Ciuni + Panichi, Inc.*

Cleveland, Ohio  
November 16, 2017



**Independent Auditor's Report on Compliance for Each Major Program; Report on Internal Control Over Compliance; and Report on the Schedule of Expenditures of Federal Awards Required by OMB Circular A-133**

Honorable Mayor and  
Members of City Council  
City of East Cleveland

**Report on Compliance for Each Major Federal Program**

We have audited the City of East Cleveland, Ohio's (the "City") compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the City's major federal programs for the year ended December 31, 2013. The City's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

***Management's Responsibility***

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

***Auditor's Responsibility***

Our responsibility is to express an opinion on compliance for each of the City's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the City's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of the City's compliance.

***Opinion on Each Major Federal Program***

In our opinion, the City complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended December 31, 2013.

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

### ***Other Matters***

The results of our auditing procedures disclosed an instance of noncompliance, which is required to be reported in accordance with OMB Circular A-133 and which is described in the accompanying schedule of findings and questioned costs as item 2013-010. Our opinion on each major federal program is not modified with respect to this matter.

The City's response to the noncompliance finding identified in our audit is described in the accompanying schedule of findings and questioned costs and corrective action plan. The City's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

### **Report on Internal Control over Compliance**

Management of the City is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the City's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over compliance.

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as discussed below, we identified certain deficiencies in internal control over compliance that we consider to be material weaknesses.

*A deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance. We consider the deficiencies in internal control over compliance described in the accompanying schedule of findings and questioned costs as item 2013-009 to be a material weakness.

The City's response to the internal control over compliance finding identified in our audit is described in the accompanying schedule of findings and questioned costs and corrective action plan. The City's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

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

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

**Report on Schedule of Expenditures of Federal Awards Required by OMB Circular A-133**

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the City, as of and for the year ended December 31, 2013, and the related notes to the financial statements, which collectively comprise City's basic financial statements wherein we noted the City was placed in fiscal emergency effective October 9, 2012. We issued our report thereon dated November 16, 2017, which contained a qualified opinion over the governmental activities and unmodified opinions on the other opinion units. Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of federal awards is fairly stated in all material respects in relation to the basic financial statements as a whole.

*Ciuni + Panichi, Inc.*

Cleveland, Ohio  
November 16, 2017

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# City of East Cleveland

## Schedule of Expenditures of Federal Awards

**For the Year Ended December 31, 2013**

<u>Federal Grantor/Pass-Through Grantor/Program or Cluster Title</u>	<u>Federal CFDA Number</u>	<u>Federal Expenditures</u>
<b>U.S. Department of Housing and Urban Development:</b>		
Direct Programs:		
CDBG Entitlement Grants Cluster		
Community Development Block Grant, Entitlement Program	14.218	\$ 826,759
Community Development Block Grant, Entitlement Program – passed-through to subrecipients	14.218	<u>22,644</u>
<b>Total CDBG Entitlement Grants Cluster</b>		<b>849,403</b>
Home Investment Partnership Program	14.239	892,100
Home Investment Partnership Program - passed-through to subrecipients	14.239	<u>33,819</u>
<b>Total Home Investment Partnership Program</b>		<b>925,919</b>
Passed Through Office of Community Planning and Development:		
CDBG State Administered CDBG Cluster:		
Community Development Block Grant/State’s Program and Non-Entitlement Grants in Hawaii	14.228	601,482
<b>Total U.S. Department of Housing and Urban Development</b>		<b>2,376,804</b>
<b>U.S. Department of Justice:</b>		
Passed Through Office of Community Oriented Policing Services:		
Public Safety Partnership and Community Policing Grants	16.710	157,715
Passed Through Office of Justice Programs:		
JAG Program Cluster:		
Recovery Act - Edward Byrne Memorial Justice Assistance Grant (JAG) / Grants to Units of Local Government	16.804	21,000
Passed Through Office of Victims of Crime:		
Crime Victim Assistance Grant (VOCA)	16.575	75,668
Crime Victim Assistance Grant (SVAA)	16.575	<u>21,546</u>
<b>Total U.S. Department of Justice</b>		<b>275,929</b>
<b>U.S. Department of Health and Human Services:</b>		
Passed Through Western Reserve Area on Aging:		
Aging Cluster:		
Special Programs for the Aging--Title III, Part B--Grants for Supportive Services and Senior Centers	93.044	249,696
Special Programs for the Aging--Title III, Part C— Nutrition Services	93.045	<u>8,286</u>
<b>Total U.S. Department of Health and Human Services</b>		<b>257,982</b>

The accompanying notes are an integral part of this schedule

**City of East Cleveland**

**Schedule of Expenditures of Federal Awards (continued)**

**For the Year Ended December 31, 2013**

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<u>Federal Grantor/Pass-Through Grantor/Program or Cluster Title</u>	<u>Federal CFDA Number</u>	<u>Federal Expenditures</u>
<b>U.S. Department of Homeland Security, Federal Emergency Management Agency</b>		
Direct Programs:		
Assistance to Firefighters Grant	97.044	<u>92,890</u>
Total Expenditures of Federal Awards		<u>\$ 3,003,605</u>

The accompanying notes are an integral part of this schedule

# City of East Cleveland

## Notes to the Schedule of Expenditures of Federal Awards

### For the Year Ended December 31, 2013

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**Note 1: Summary of Significant Accounting Policies**

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

**Note 2: Subrecipients**

The City passes certain federal awards received from the United States Department of Housing and Urban Development to other governments or not-for-profit agencies (subrecipients). As Note 1 describes, the City reports expenditures of federal awards to subrecipients on the cash basis of accounting.

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

During 2013, the City provided \$22,644 of the Community Development Block Grant, Entitlement Program grant and \$33,819 of the Home Investment Partnership Program, to subrecipients.

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# City of East Cleveland, Ohio

## Schedule of Findings and Questioned Costs

**For the Year Ended December 31, 2013**

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### 1. Summary of Auditor's Results

(d)(1)(i)	Type of Financial Statement Opinion	Governmental activities – Qualified. Unmodified for other opinion units.
(d)(1)(ii)	Were there any material control weaknesses reported at the financial statement level (GAGAS)?	Yes
(d)(1)(ii)	Were there any significant deficiencies in internal control reported at the financial statement level (GAGAS)?	No
(d)(1)(iii)	Was there any reported material noncompliance at the financial statement level (GAGAS)?	Yes
(d)(1)(iv)	Were there any material internal control weaknesses reported for major federal programs?	Yes
(d)(1)(iv)	Were there any significant deficiencies in internal control reported for major federal programs?	No
(d)(1)(v)	Type of Major Programs' Compliance Opinion	Unmodified
(d)(1)(vi)	Are there any reportable findings under Section .510(a)?	Yes
(d)(1)(vii)	Major Programs	CDBG State Administered CDBG Cluster, CFDA # 14.228  CDBG Entitlement Grants Cluster, CFDA # 14.218 Home Investment Partnership Program, CFDA # 14.239
(d)(1)(viii)	Dollar Threshold: Type A/B Programs	Type A: >\$300,000 Type B: All Others
(d)(1)(ix)	Low Risk Auditee?	No

# City of East Cleveland, Ohio

## Schedule of Findings and Questioned Costs (continued)

**For the Year Ended December 31, 2013**

---

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

#### **2013-001: Material Weakness in internal control over financial reporting**

**Condition:**

We noted the City improperly included uncollectible amounts in the income tax and EMS receivable balances which resulted in material adjustments made to these receivable and the related deferred inflow balances. We also noted the City had improperly excluded accounts and judgments payable amounts from the financial statements resulting from improper cutoff procedures and resulting in material adjustments made to liability and expense accounts.

**Criteria:**

The internal control structure and processes should provide for the accurate assessment of uncollectible accounts receivable and the internal control structure and processes should provide for accurate cutoff procedures at year-end.

**Cause:**

Controls were not in place to ensure uncollectible balances were excluded from the receivable balance. Additionally, controls related to the compilation of the City's accounts payable listing were not in place to ensure compliance with the City's cutoff procedures.

**Effect:**

The lack of controls to ensure uncollectible balances are excluded from the receivable balance may result in an overstatement of receivable balances and the lack of controls over the cutoff procedures relating to accounts payable may result in errors or irregularities going undetected and decrease the reliability of amounts reported in the City's financial statements.

**Recommendation:**

We recommend the City implement controls over the year-end receivable procedures to help ensure that uncollectible balances are properly excluded from the receivable balance. In addition, we recommend the City implement controls over the year-end cutoff procedures to help ensure that a proper cutoff is achieved, thereby increasing the reliability of the financial data at year-end.

**Management's Response:**

The City will complete an assessment of uncollectible accounts receivable balances at year-end and implement proper cut-off procedures by identifying items that should be reported as accounts payable. The City will ensure that these items are communicated with third parties assisting with the GAAP conversion.

#### **2013-002: Material Weakness – Capital Assets**

**Condition:**

During our procedures performed over the City's capital assets it was noted that the cost and accumulated depreciation totals in the client's system do not tie to the amounts reported in the City's 2013 financial statements. We also noted the need to materially adjust the capital asset additions reported in 2013 as, in these instances, the City was capitalizing repairs and maintenance that should have been expensed during the year.

# City of East Cleveland, Ohio

## Schedule of Findings and Questioned Costs (continued)

### For the Year Ended December 31, 2013

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

##### 2013-002: Material Weakness – Capital Assets (continued)

The City does not have a Council-approved capital asset policy for reporting its land, construction-in-progress, buildings, improvements other than buildings, machinery and equipment, and infrastructure. We also noted the City has some assets that are no longer in use but have not been deleted from the list of capital assets and some capital assets are still in service that are fully depreciated.

##### **Criteria:**

The internal control structure and processes should provide for the accurate assessment of capital asset additions and deletions at year-end.

##### **Cause:**

Controls were not in place to ensure repairs and maintenance expenses were excluded from the capital asset balances.

##### **Effect:**

The lack of controls to ensure repairs and maintenance expenses were excluded from the capital asset balance may result in an overstatement of capital asset balances and decrease the reliability of amounts reported in the City's financial statements. This may allow items to be inadvertently omitted from the capital asset accounting records or allow those items which do not qualify for recognition as capital assets to be included in the capital asset accounting records.

##### **Recommendation:**

We recommend that the City reconcile the amounts reported in the City's capital asset tracking system in order to accurately report the amount of capital assets and accumulated depreciation at year-end. We also recommend the City adopt a written capital asset policy that includes, but is not limited to the following:

- Depreciable lives for capital assets;
- Capitalization thresholds for each class of capital assets for reporting and control purposes;
- Depreciation methods;
- Salvage values for the different classes of capital assets;
- Methodology for improvements and renovations that extend the capital assets' useful lives;
- Fully depreciated assets still in use;
- Whether items that are purchased which, in aggregate, exceed the threshold, but individually do not, should be capitalized;
- Allocating depreciation at the function and program level for the government-wide statement of activities; and
- Definitions of maintenance and repair costs and the costs of improvements to the efficiency or capacity of the assets.

##### **Management's Response:**

The City will complete an assessment of what constitutes a capital asset on an as-needed basis and create a policy addressing all aspects of what constitutes a capital asset and have Council approve this policy.

# City of East Cleveland

## Schedule of Findings and Questioned Costs (continued)

**For the Year Ended December 31, 2013**

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

#### **2013-003: Material Weakness – Maintaining Payroll Forms**

**Condition:**

During a review of 25 employees selected for testing, we noted multiple instances in which an approved payroll authorization form could not be located, inadequate documentation of hours worked, payroll authorization form was not appropriately approved, improper approval of compensated absences, and a lack of support for voluntary deductions. While all the salaries were within the salary range established by Council, we were not able to verify the amount paid agreed to the amount authorized, whether or not employees were appropriately compensated for actual hours worked, and whether or not their voluntary deductions were being properly processed.

**Criteria:**

The City should enforce payroll internal control policies requiring supervisors to approve timesheets prior to payroll processing and monitor these policies to ensure that employees are compensated for work performed.

**Cause:**

Controls in place requiring supervisor approval of a payroll authorization form were not performed resulting in documentation that lacked approvals stipulated in the City's policies and procedures, including approval of compensated absences, and a lack of support for voluntary deductions.

**Effect:**

This may result in employees being compensated in excess of the approved amount or the deduction of monies from the employee without their consent.

**Recommendation:**

We recommend that documentation supporting payroll information be properly reviewed and approved and maintained by the payroll department or in the employee's personnel file in orderly fashion.

**Management's Response:**

The City is taking the necessary steps to ensure proper payroll approvals are obtained, adequate documentation of hours worked, proper approval of compensated absences, and support for voluntary deductions is obtained.

#### **2013-004: Material Weakness – Restatement of Fund Balances and Net Position**

**Condition:**

During 2013, it was determined the City should no longer present water and sewer enterprise funds. The City transferred ownership of the water lines to the City of Cleveland and the sewer lines to the Northeast Ohio Regional Sewer District in 2012. The remaining assets are being utilized in the street department. During 2013, it was determined that funds presented as special revenue should have been presented with the general fund. The City also determined that cash with segregated accounts was overstated and cash and cash equivalents, intergovernmental receivable and OPWC loans payable were understated.

# City of East Cleveland

## Schedule of Findings and Questioned Costs (continued)

**For the Year Ended December 31, 2013**

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

#### **2013-004: Material Weakness – Restatement of Fund Balances and Net Position (continued)**

**Criteria:**

The internal control structure and processes should provide for the accurate reporting of capital assets, including reporting these assets in the proper funds and OPWC loans and related receivables and any other assets or liabilities relating to these loans.

**Cause:**

Controls were not in place to ensure accurate reporting of capital assets, including reporting these assets in the proper funds and OPWC loans and related receivables and any other assets or liabilities relating to these loans.

**Effect:**

The lack of controls over the posting of capital asset and OPWC loans and related assets and liabilities can result in errors and irregularities that may go undetected and decreases the reliability of financial data throughout the year.

**Recommendation:**

We recommend the City adopts procedures for controls over the accurate reporting of capital assets, including reporting these assets in the proper funds and OPWC loans and related receivables and any other assets or liabilities relating to these loans thereby increasing the reliability of the financial data at year-end.

**Management's Response:**

The City will adopt procedures to ensure the accurate reporting of capital assets, including reporting these assets in the proper funds and OPWC loans and related receivables and any other assets or liabilities relating to these loans thereby increasing the reliability of the financial data at year-end. The City will ensure that these items are communicated with third parties assisting with the GAAP conversion.

#### **2013-005: Material Weakness – Schedule of Expenditures of Federal Awards (SEFA) Preparation and Reconciliations**

**Condition:**

During our audit procedures, we noted that there was an unreconciled difference between the general ledger and the final SEFA of approximately \$9,400 relating to CDBG funds and \$19,064 relating to HOME funds.

During our audit procedures, we also noted that the SEFA did not identify clusters and did not include a federal grant with expenditures in 2013.

**Criteria:**

The internal control structure and processes should provide for the accurate reporting of federal awards and award clusters on the SEFA.

**Cause:**

Controls were not in place to ensure accurate reporting of federal awards and award clusters on the SEFA.

# City of East Cleveland

## Schedule of Findings and Questioned Costs (continued)

**For the Year Ended December 31, 2013**

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

#### **2013-005: Material Weakness – Federal Schedule Preparation and Reconciliations (continued)**

**Effect:**

The lack of controls over the accurate reporting of federal awards and award clusters on the SEFA can result in the lack of compliance with OMB Circular A-133 required testing of major programs and errors and irregularities that may go undetected and decreases the reliability of financial data throughout the year.

**Recommendation:**

We recommend that the reconciliation between the accounting system and the Draw Downs (which feed into SEFA) are reconciled after each draw. We also recommend that the SEFA be monitored and updated throughout the year to ensure all federal grant expenditures are properly reported and clusters are properly identified.

**Management's Response:**

The City will reconcile the amounts reported in the City's computer system in order to accurately report the amount of federal awards received and spent at year-end. In addition, the SEFA be monitored and updated throughout the year to ensure all federal grant expenditures are properly reported and clusters are properly identified.

#### **2013-006: Material Weakness – Municipal Court Bank Reconciliations**

**Condition:**

During the procedures performed on the Municipal Court, we noted that the Municipal Court did not prepare bank reconciliations for all bank accounts utilized during the year ended December 31, 2013.

**Criteria:**

The internal control structure should require the Municipal Court to prepare detailed bank reconciliations, in a timely manner, and include all bank account balances being reconciled to book balances.

**Cause:**

Controls were not in place to ensure Municipal Court bank reconciliations were being prepared for all bank accounts utilized.

**Effect:**

The lack of controls over Municipal Court bank reconciliations can result in errors and irregularities in cash balances that may go undetected and decreases the reliability of financial data throughout the year.

**Recommendation:**

We recommend the Municipal Court prepares detailed bank reconciliations that include all bank account balances being reconciled to book balances on a timely basis (e.g., by the end of the following month). We also recommend that copies of bank reconciliations should be presented to the City's finance department for review and approval. The review and approval by the finance department should also serve as a monitoring control to ensure reconciliations are prepared timely.

# City of East Cleveland

## Schedule of Findings and Questioned Costs (continued)

**For the Year Ended December 31, 2013**

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

#### **2013-006: Material Weakness – Municipal Court Bank Reconciliations (continued)**

##### **Management's Response:**

The City is taking the necessary steps to ensure Municipal Court bank reconciliations are prepared timely and reviewed and approved by the finance department.

#### **2013-007: Material Noncompliance – Budgetary Noncompliance**

The City was placed in fiscal emergency as a result of failing to submit a feasible financial recovery plan to correct the conditions that prompted the declaration of fiscal watch. A portion of that plan was to have included eliminating deficit funds that are contrary to the provisions of Chapter 5705. These violations were cited extensively (repeatedly) in the reports leading up to the declaration of emergency. While in emergency, it is anticipated that these violations will continue until the City regains financial stability. Until that time, only new violations in funds that were not in deficit at the time of emergency declaration will be cited.

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

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

	<u>Original Estimated Resources Plus Carryover Balances</u>	<u>Original Appropriations</u>	<u>Excess</u>
<b>Governmental Funds</b>			
<i>Special Revenue Funds:</i>			
Neighborhood Stabilization Program - 3	\$ 294,458	\$ 1,028,448	\$ 733,990
Neighborhood Stabilization Program - 1	-	33,929	33,929
City Probation Services Fund	12,141	16,000	3,859
Water Capital Improvement	-	52,749	52,749
Community Development Fund	2,680,746	2,850,457	169,711
<i>Capital Projects Fund:</i>			
Capital Improvements	137,960	521,402	383,442

# City of East Cleveland

## Schedule of Findings and Questioned Costs (continued)

**For the Year Ended December 31, 2013**

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

#### 2013-007: Material Noncompliance – Budgetary Noncompliance (continued)

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

	<u>Final Estimated Resources Plus Carryover Balances</u>	<u>Final Appropriations</u>	<u>Excess</u>
<b>Governmental Funds</b>			
<i>Special Revenue Funds:</i>			
Local Law Enforcement Block Grant	\$ -	\$ 148,173	\$ 148,173
<i>Capital Projects Funds:</i>			
Capital Improvements	56,960	521,402	464,442

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

At December 31, 2013, the City had expenditures plus encumbrances in excess of appropriations as follows:

<u>Fund/Function</u>	<u>Appropriations</u>	<u>Expenditure Plus Encumbrances</u>	<u>Excess</u>
<i>Special Revenue Funds:</i>			
<i>Police Accrued Liability:</i>			
<i>Security of People and Property:</i>			
Personal Services	\$ 33,090	\$ 51,229	\$ 18,139
<i>Fire Accrued Liability:</i>			
<i>Security of People and Property:</i>			
Personal Services	33,090	42,368	9,278
<i>FEMA Grant:</i>			
<i>Security of People and Property:</i>			
Contractual Services	-	2,500	2,500
Capital Outlay	-	90,390	90,390
<i>Computer Legalize Fees:</i>			
<i>General Government:</i>			
Contractual Services	30,374	43,867	13,493



**City of East Cleveland**

**Schedule of Findings and Questioned Costs (continued)**

**For the Year Ended December 31, 2013**

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

**2013-007: Material Noncompliance – Budgetary Noncompliance (continued)**

<u>Fund/Function</u>	<u>Appropriations</u>	<u>Expenditure Plus Encumbrances</u>	<u>Excess</u>
Engineering and Building Department:			
General Government:			
Contractual Services	408	4,424	4,016
Neighborhood Support Program - 1:			
Community Development:			
Contractual Services	33,929	597,058	563,129
COPS Universal:			
Security of People and Property:			
Personal Services	-	168,697	168,697
Debt Service Funds:			
Bond Retirement:			
Debt Service	-	191,029	191,029
Capital Projects Funds:			
Permanent Improvement:			
Capital Outlay	244,491	304,715	60,224

**Management’s Response:**

Management will compare original and final appropriations to original and final estimated resources plus carryover balances on a monthly basis to ensure estimated resources plus carryover balances are not exceeded or budgetary adjustments are made. Management will also compare appropriations with expenditures plus encumbrances on a monthly basis to ensure appropriations are not exceeded or budgetary adjustments are made.

**2013-008: Material Noncompliance – Negative Cash Balances**

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

# City of East Cleveland

## Schedule of Findings and Questioned Costs (continued)

**For the Year Ended December 31, 2013**

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

#### **2013-008: Material Noncompliance – Negative Cash Balances (continued)**

The following funds had deficit cash balances at December 31, 2013:

Governmental Funds:	
General Fund	\$ 2,290,542
Older Americans	678,076
Courts Community Service	3,190
Domestic Violence	230,081
Community Development	110,616
D.A.R.E.	127
JAG Police	27,179
Neighborhood Stabilization Program – 3	53,867

#### **Management’s Response:**

Management will monitor the timing of receipts and expenditures, and advance monies from the General Fund when available to eliminate negative cash fund balances.

### 3. Findings for Federal Awards

#### **2013-009 – Material Weakness in internal control over federal awards, Allowable Costs:**

CDBG Entitlement Grants Cluster, CFDA #14.218 – Community Development Block Grant, Entitlement Program, CDBG State Administered CDBG Cluster, CFDA #14.228 – Community Development Block Grants/State’s Program and Non-Entitlement Grants in Hawaii and CFDA #14.239 – Home Investment Partnership Program.

#### **Condition:**

During our control testing performed over the allowable costs compliance requirement, we noted multiple instances in which approved payroll authorization forms could not be located and timesheets were not approved. All the salaries were within the salary range established by Council and the time reported on the timesheets matched the hours for which the employee was paid.

#### **Criteria:**

The respective grant agreements specify that personnel costs are an allowable expense of the grants. Timesheets are utilized by the City to track hours worked by employees and supervisor approval of the timesheets indicates the City considers the hours worked as an allowable expense to these grant funds.

#### **Cause:**

Controls in place requiring approved payroll authorization forms and approved documentation of hours worked be maintained were not performed.

# City of East Cleveland

## Schedule of Findings and Questioned Costs (continued)

**For the Year Ended December 31, 2013**

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### 3. Findings for Federal Awards (continued)

#### **2013-009 – Material Weakness in internal control over federal awards, Allowable Costs (continued):**

**Effect:**

Without approved payroll authorization forms and approved documentation of hours worked, it is possible an employee could have been paid for unearned hours that could result in potential questioned costs and unallowable expenditures.

**Recommendation:**

We recommend that the City enforce payroll internal control policies requiring approved payroll authorization forms and approved documentation of hours worked be maintained.

**Management's Response:**

The City is taking the necessary steps to require approved payroll authorization forms and approved documentation of hours worked be maintained.

#### **2013-010 – Material Noncompliance:**

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

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

**Management's Response:**

The City is in the process of getting caught up by December 2018.

# City of East Cleveland

## Schedule of Prior Audit Findings

**December 31, 2013**

Finding No.	Finding Summary	Fully Corrected	Explanation
2012-01	<p><b><i>Material Weakness – audit adjustments</i></b></p> <p>Sound financial reporting is the responsibility of the Director of Finance and City Council and is essential to ensure the information provided to the readers of the financial statements is complete and accurate.</p> <p>During a review of the report the following adjustments were identified:</p> <ul style="list-style-type: none"> <li>• Adjusted accounts payable to actual at December 31, 2012.</li> <li>• Increased accounts payable to properly report litigation settlements.</li> <li>• Adjusted income tax receivable to remove the uncollectible portion from the receivable balance as estimated by R.I.T.A.</li> </ul> <p>We also noted multiple instances where adjustments were needed for non-payroll expenditures that were booked to payroll accounts within the City’s computer system.</p> <p>The lack of controls over financial reporting can result in errors and irregularities that may go undetected and decreases the reliability of financial data at year-end.</p> <p>We recommend the City adopts policies and procedures for controls over year-end financial reporting to help ensure the information accurately reflects the activity of the City, thereby increasing the reliability of the financial data at year-end. The City’s management needs to review the statements to be sure that all items are being properly recorded.</p>	No	The City had similar audit adjustments in the current year.

# City of East Cleveland

## Schedule of Prior Audit Findings (continued)

**December 31, 2013**

Finding No.	Finding Summary	Fully Corrected	Explanation
2012-02	<p><b><i>Material Weakness – capital assets</i></b></p> <p>During our procedures performed over the City’s capital assets, it was noted that the cost and accumulated depreciation totals in the client’s system do not tie to the amounts reported in the City’s 2012 financial statements.</p>	No	The City had similar findings in the current year.
2012-03	<p><b><i>Material weakness – maintaining payroll authorization forms</i></b></p> <p>City Council establishes the salary range for all employees of the City and a Personnel Appointment Form is used to document the payroll information. The form identifies the annual salary, hourly rate, and budget account number and is approved by the Department Director, Human Resources Director, Finance Director, and Mayor. Once approved, the information is entered in the ADP payroll system by the Human Services Director.</p> <p>During a review of 40 employees selected for testing, we noted 3 instances in which an approved payroll authorization form could not be located and 9 instances in which an approved timecard could not be located. These exceptions may result in employees being compensated in excess of the approved amount.</p> <p>We recommend that documentation supporting payroll information be maintained by the payroll department or in the employee’s personnel file.</p>	No	The City had similar findings in the current year.

# City of East Cleveland

## Schedule of Prior Audit Findings (continued)

**December 31, 2013**

Finding No.	Finding Summary	Fully Corrected	Explanation
2012-04	<p><b><i>Budgetary Control – Material Noncompliance</i></b></p> <p>The following funds had deficit cash balances at December 31, 2012:</p> <p>Governmental Funds:            General fund            Older Americans fund            Courts Community Service fund            Domestic Violence fund            D.A.R.E            Victims of Crimes Act fund            JAG Police            Neighborhood Stabilization Program – 1            Community Development fund</p> <p>Enterprise Funds:            Water fund            Sewer fund</p>	No	The City has material noncompliance again in 2013.
2012-05	<p><b><i>Budgetary Control – Material Noncompliance</i></b></p> <p>Ohio Revised Code Section 5705.39 – the total appropriation from each fund should not exceed the total estimated revenue. No appropriation measure is to become effective until the County Auditor files a certificate that the total appropriations from each fund do not exceed the total official estimate or amended official estimate.</p> <p>At December 31, 2012, the City had numerous funds with original and final appropriation in excess of estimated resources plus carryover balances.</p>	No	The City has material noncompliance again in 2013.
2012-06	<p><b><i>Budgetary Control – Material Noncompliance</i></b></p> <p>The Ohio Revised Code Section 5705.41(B) prohibits a subdivision from making an expenditure unless it has been appropriated as provided in Chapter 5705 of the Revised Code.</p> <p>At December 31, 2012, the City had numerous funds with expenditures plus encumbrances in excess of appropriations.</p>	No	The City has material noncompliance again in 2013.

# City of East Cleveland

## Schedule of Prior Audit Findings (continued)

**December 31, 2013**

Finding No.	Finding Summary	Fully Corrected	Explanation
2012-07	<p><b><i>Budgetary Control – Material Noncompliance</i></b></p> <p>Ohio Revised Code § 5705.36(A)(2) allows all subdivisions to request increased amended certificates of estimated resources and reduced certificates upon determination by the fiscal officer that revenue to be collected will be greater or less than the amount in the official certificate of estimated resources. Ohio Revised Code § 5705.36(A)(4) requires obtaining a reduced amended certificate if the amount of the deficiency will reduce available resources below the current level of appropriations.</p> <p>At December 31, 2012, the City had several funds where appropriations materially exceeded actual resources.</p>	No	We did not observe during the audit as this compliance requirement has been removed from the Ohio Compliance Supplement.
2012-08	<p><b><i>Material Noncompliance</i></b></p> <p>Ohio Revised Code Section 5705.41(D)(1) prohibits a subdivision or taxing authority from making any contract or ordering any expenditure of money unless a certificate signed by the fiscal officer is attached thereto. The fiscal officer must certify the amount required to meet any such contract or expenditure has been lawfully appropriated and is in the treasury, or in the process of collection to the credit of an appropriate fund free from any previous encumbrance.</p> <p>15 out of 40 instances were noted in which the transaction was not certified by the fiscal officer at the time of the commitment, contrary to Ohio Rev. Code Section 5705.41(D)(1).</p>	No	This had been corrected in 2013.

# City of East Cleveland

## Schedule of Prior Audit Findings (continued)

**December 31, 2013**

Finding No.	Finding Summary	Fully Corrected	Explanation
2012-09	<p><b><i>Federal Finding – Cash Management</i></b></p> <p>Office of Housing and Community Partnerships (OHCP) Management Rules and Regulations, section (A)(3)(f), states that grantees must develop a cash management system to ensure compliance with the Fifteen-Day Rule relating to prompt disbursement of funds. This rule states that funds drawn down should be limited to amounts that will enable the grantee to disburse the funds on hand to a balance of less than \$5,000 within 15 days of receipt of any funds. Lump-sum drawdowns are not permitted.</p> <p>During our testing over the City’s cash draws, we noted that the funds that were drawn down were not disbursed to a balance of less than \$5,000 within 15 days of receipt of those funds. However, it should be noted that the expenditures made with those funds were for allowable costs.</p>	Yes	This had been corrected in 2013.
2012-10	<p><b><i>Federal Finding – Material Noncompliance</i></b></p> <p>OMB Circular A-133 Section 300(e) provides that the auditee is responsible for appropriate submission of the audit reports to the appropriate government officials and organizations. OMB Circular A-133 Section 320(a) further provides that the audit report and data collection form must be submitted within the earlier of 30 days after the reports are received from the auditors, or nine months after the end of the audit period, unless a longer period is agreed upon in advance by the cognizant or oversight agency.</p> <p>It was noted that the City did not submit the required documentation within the time period discussed above.</p>	No	The City has noncompliance again in 2013.





# The City of East Cleveland

## FINANCE DEPARTMENT

BRANDON L. KING MAYOR  
CHARLES IYAHEN, FINANCE DIRECTOR



### City of East Cleveland

#### Corrective Action Plan

December 31, 2013

<u>Finding Number</u>	<u>Planned Correction Action</u>	<u>Anticipated Completion Date</u>	<u>Responsible Contact Person</u>
2013-001	The City will complete an assessment of uncollectible accounts receivable balances at year-end and implement proper cut-off procedures by identifying items that should be reported as accounts payable. The City will ensure that these items are communicated with third parties assisting with the GAAP conversion.	December 31, 2018	Charles Iyahen, Interim Finance Director
2013-002	The City will reconcile the amounts reported in the City's computer system in order to accurately report the amount of capital assets and accumulated depreciation at year-end.	December 31, 2018	Charles Iyahen, Interim Finance Director
2013-003	The City is taking the necessary steps to ensure proper payroll approvals are obtained, adequate documentation of hours worked, proper approval of compensated absences, and support for voluntary deductions is obtained.	December 31, 2018	Charles Iyahen, Interim Finance Director
2013-004	The City will adopt procedures to ensure the accurate reporting of capital assets, including reporting these assets in the proper funds and OPWC loans and related receivables and any other assets or liabilities relating to these loans thereby increasing the reliability of the financial data at year-end. The City will ensure that these items are communicated with third parties assisting with the GAAP conversion.	December 31, 2018	Charles Iyahen, Interim Finance Director
2013-005	The City will reconcile the amounts reported in the City's computer system in order to accurately report the amount of federal awards received and spent at year-end. In addition, the SEFA be monitored and updated throughout the year to ensure all federal grant expenditures are properly reported and clusters are properly identified.	December 31, 2018	Charles Iyahen, Interim Finance Director



# The City of East Cleveland

## FINANCE DEPARTMENT

BRANDON L. KING MAYOR  
CHARLES IYAHEN, FINANCE DIRECTOR



### City of East Cleveland

#### Corrective Action Plan

December 31, 2013

<b>Finding Number</b>	<b>Planned Correction Action</b>	<b>Anticipated Completion Date</b>	<b>Responsible Contact Person</b>
2013-006	The City is taking the necessary steps to ensure Municipal Court bank reconciliations are prepared timely and reviewed and approved by the finance department.	December 31, 2018	Charles Iyahen, Interim Finance Director
2013-007	Management will compare original and final appropriations to original and final estimated resources plus carryover balances on a monthly basis to ensure estimated resources plus carryover balances are not exceeded or budgetary adjustments are made. Management will also compare appropriations with expenditures plus encumbrances on a monthly basis to ensure appropriations are not exceeded or budgetary adjustments are made.	December 31, 2018	Charles Iyahen, Interim Finance Director
2013-008	Management will monitor the timing of receipts and expenditures, and advance monies from the General Fund when available to eliminate negative cash fund balances.	December 31, 2018	Charles Iyahen, Interim Finance Director
2013-009	The City is taking the necessary steps to ensure proper payroll approvals are obtained, adequate documentation of hours worked, proper approval of compensated absences, and support for voluntary deductions is obtained in order to support the amounts charged to federal grants.	December 31, 2018	Charles Iyahen, Interim Finance Director
2013-010	The City will attempt to submit the required OMB Circular A-133 documentation within the earlier of 30 days after the reports are received from the auditors, or nine months after the end of the audit period.	December 31, 2018	Charles Iyahen, Interim Finance Director



# Dave Yost • Auditor of State

**CITY OF EAST CLEVELAND**

**CUYAHOGA COUNTY**

**CLERK'S CERTIFICATION**

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

*Susan Babbitt*

**CLERK OF THE BUREAU**

**CERTIFIED  
DECEMBER 28, 2017**