

City of East Cleveland, Ohio

Single Audit Reports

December 31, 2016

OHIO AUDITOR OF STATE
KEITH FABER

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City Council
City of East Cleveland
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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, 2016 through December 31, 2016. 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.



Keith Faber
Auditor of State
Columbus, Ohio

June 5, 2019

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City of East Cleveland, Ohio

For the Year Ended December 31, 2016

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Independent Auditor's Report

Honorable Mayor and
Members of the City Council
City of 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, 2016, 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
City of East Cleveland, Ohio

Summary of Opinions

<u>Opinion Unit</u>	<u>Type of Opinion</u>
Governmental Activities	Qualified
General Fund	Unmodified
Community Development 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 adequate support could 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, as of December 31, 2016, 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, as of December 31, 2016, and the respective changes in financial position and, where applicable, cash flows thereof and the respective budgetary comparison for the General Fund and the Community Development 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 19 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.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management’s discussion and analysis and required schedules on pensions as listed in the table of contents be presented to supplement the basic financial statements. Such information, although not a part of the basic financial

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

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 May 13, 2019, 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.

Cimini + Panichi, Inc.

Cleveland, Ohio
May 13, 2019

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City of East Cleveland, Ohio
Management's Discussion and Analysis
For the Year Ended December 31, 2016
Unaudited

The discussion and analysis of the City of East Cleveland's financial performance provides an overview of the City's financial activities for the year ended December 31, 2016. 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 2016 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.
- Governmental Activities expenses increased from 2015 to 2016, due to the alleviation of budget constraints from 2015 as well as an increase in judgments payable.
- The City complies with GASB 68 and GASB 71, which establish standards for measuring and recognizing pension liabilities, deferred outflows/inflows of resources and expense/expenditure. The implementation of these GASB statements resulted in a significant change to the financial statements presentation of the City.

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 2016 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 deferred outflows of resources 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.

City of East Cleveland, Ohio
Management's Discussion and Analysis
For the Year Ended December 31, 2016
Unaudited

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. 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 with discussion of the balance sheet. 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 two major funds: the general fund and the community development special revenue fund.

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

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

Proprietary Funds An internal service fund is an accounting device used to accumulate and allocate costs internally among the City's various functions. The City maintains such a fund for its hospitalization of health related employee benefits.

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

The City of East Cleveland as a Whole

The Statement of Net Position provides an overall view of the City. Table 1 shows a summary of the City's net position for 2016 compared to 2015.

Table 1
Net Position

	Governmental Activities		
	2016	2015	Change
Assets			
Current and Other Assets	\$11,747,204	\$11,053,931	\$693,273
Capital Assets, Net	17,428,800	18,173,481	(744,681)
<i>Total Assets</i>	<u>29,176,004</u>	<u>29,227,412</u>	<u>(51,408)</u>
Deferred Outflows of Resources			
Pension	5,346,880	1,733,254	3,613,626
Liabilities			
Current Liabilities	3,179,057	4,029,807	850,750
Long-Term Liabilities:			
Due Within One Year	384,216	321,989	(62,227)
Due in More than One Year			
Net Pension Liability	16,972,956	12,043,326	(4,929,630)
Other Amounts	15,957,185	5,281,282	(10,675,903)
<i>Total Liabilities</i>	<u>36,493,414</u>	<u>21,676,404</u>	<u>(14,817,010)</u>
Deferred Inflows of Resources			
Property Taxes	866,065	807,349	(58,716)
Pension	307,347	41,827	(265,520)
<i>Total Deferred Inflows of Resources</i>	<u>1,173,412</u>	<u>849,176</u>	<u>(324,236)</u>
Net Position			
Net Investment in Capital Assets	14,816,936	15,405,519	(588,583)
Restricted for:			
Capital Projects	1,034,170	1,026,973	7,197
Other Purposes	1,813,768	2,008,289	(194,521)
Unrestricted (Deficit)	<u>(20,808,816)</u>	<u>(10,005,695)</u>	<u>(10,803,121)</u>
<i>Total Net Position</i>	<u><u>(\$3,143,942)</u></u>	<u><u>\$8,435,086</u></u>	<u><u>(\$11,579,028)</u></u>

Total net position for governmental activities decreased mainly due to an increase in net pension liability offset by a corresponding increase in associated net pension liability's deferred outflows.

The significant increase in total deferred outflow of resources in 2016 was due to an increase in the difference between projected and actual earnings on investments related to the City's net pension liability for OPERS.

City of East Cleveland, Ohio
Management's Discussion and Analysis
For the Year Ended December 31, 2016
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The net pension liability increase represents the City's proportionate share of the OPERS traditional and Ohio Police and Fire Pension plans unfunded benefits. As indicated above, changes in pension benefits, contribution rates, and return on investments affect the balance of the net pension liability.

Table 2 shows the changes in net position for the year ended December 31, 2016. Revenue and expense comparisons to the year 2015 are also shown.

Table 2
Changes in Net Position

	Governmental Activities		
	2016	2015	Change
Revenues:			
Program Revenues:			
Charges for Services	\$3,295,929	\$3,867,211	(\$571,282)
Operating Grants and Contributions	1,727,825	1,515,699	212,126
<i>Total Program Revenues</i>	<u>5,023,754</u>	<u>5,382,910</u>	<u>(359,156)</u>
General Revenues:			
Property Taxes	1,062,398	1,316,409	(254,011)
Municipal Income Taxes	5,808,055	4,945,120	862,935
Hotel Tax	2,481	2,454	27
Grants and Entitlements	1,790,769	1,992,120	(201,351)
Investment Earnings	0	7	(7)
Other	256,261	170,306	85,955
<i>Total General Revenues</i>	<u>8,919,964</u>	<u>8,426,416</u>	<u>493,548</u>
<i>Total Revenues</i>	<u>13,943,718</u>	<u>13,809,326</u>	<u>134,392</u>
Program Expenses			
General Government	14,247,008	3,777,733	(10,469,275)
Security of Persons and Property	7,675,066	6,915,384	(759,682)
Transportation	977,453	793,464	(183,989)
Community Development	1,293,291	814,342	(478,949)
Leisure Time Activities	91,415	58,109	(33,306)
Basic Utility Services	1,129,763	1,200,548	70,785
Interest and Fiscal Charges	108,750	68,928	(39,822)
<i>Total Program Expenses</i>	<u>25,522,746</u>	<u>13,628,508</u>	<u>(11,894,238)</u>
Change in Net Position	(11,579,028)	180,818	(11,759,846)
<i>Net Position Beginning of Year</i>	<u>8,435,086</u>	<u>8,254,268</u>	<u>180,818</u>
<i>Net Position End of Year</i>	<u>(\$3,143,942)</u>	<u>\$8,435,086</u>	<u>(\$11,579,028)</u>

The net pension liability (NPL) is the largest single liability reported by the City at December 31, 2016 and is reported pursuant to GASB Statement 68, "Accounting and Financial Reporting for Pensions – an Amendment of GASB Statement 27." For reasons discussed below, many end users of this financial statement will gain a clearer understanding of the City's actual financial condition by adding deferred inflows related to pension and the net pension liability to the reported net position and subtracting deferred outflows related to pension.

Governmental Accounting Standards Board standards are national and apply to all government financial reports prepared in accordance with generally accepted accounting principles. When accounting for pension costs, GASB 27 focused on a funding approach. This approach limited pension costs to contributions annually required by law, which may or may not be sufficient to fully fund each plan's *net pension liability*.

City of East Cleveland, Ohio
Management's Discussion and Analysis
For the Year Ended December 31, 2016
Unaudited

GASB 68 takes an earnings approach to pension accounting; however, the nature of Ohio's statewide pension systems and state law governing those systems requires additional explanation in order to properly understand the information presented in these statements.

GASB 68 requires the net pension liability to equal the City's proportionate share of each plan's collective:

1. Present value of estimated future pension benefits attributable to active and inactive employees' past service.
2. Minus plan assets available to pay these benefits.

GASB notes that pension obligations, whether funded or unfunded, are part of the "employment exchange" – that is, the employee is trading his or her labor in exchange for wages, benefits, and the promise of a future pension. GASB noted that the unfunded portion of this pension promise is a present obligation of the government, part of a bargained-for benefit to the employee, and should accordingly be reported by the government as a liability since they received the benefit of the exchange. However, the City is not responsible for certain key factors affecting the balance of this liability. In Ohio, the employee shares the obligation of funding pension benefits with the employer. Both employer and employee contribution rates are capped by State statute. A change in these caps requires action of both Houses of the General Assembly and approval of the Governor. Benefit provisions are also determined by State statute. The employee enters the employment exchange with the knowledge that the employer's promise is limited not by contract but by law. The employer enters the exchange also knowing that there is a specific, legal limit to its contribution to the pension system. In Ohio, there is no legal means to enforce the unfunded liability of the pension system as against the public employer. State law operates to mitigate/lessen the moral obligation of the public employer to the employee, because all parties enter the employment exchange with notice as to the law. The pension system is responsible for the administration of the plan.

Most long-term liabilities have set repayment schedules or, in the case of compensated absences (i.e. sick and vacation leave), are satisfied through paid time-off or termination payments. There is no repayment schedule for the net pension liability. As explained above, changes in pension benefits, contribution rates, and return on investments affect the balance of the net pension liability, but are outside the control of the local government. In the event that contributions, investment returns, and other changes are insufficient to keep up with required pension payments, State statute does not assign/identify the responsible party for the unfunded portion. Due to the unique nature of how the net pension liability is satisfied, this liability is separately identified within the long-term liability section of the statement of net position.

In accordance with GASB 68, the City's statements prepared on an accrual basis of accounting include an annual pension expense for their proportionate share of each plan's change in net pension liability not accounted for as deferred inflows/outflows.

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.

City of East Cleveland, Ohio
Management's Discussion and Analysis
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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, 2016. The City does not allow any credit of the City's income tax rate for taxes paid to other political subdivisions in Ohio. Income taxes increased from 2015. Property taxes saw a decrease as the value of homes in the City has decreased. The decrease in operating grants is primarily due to a decrease in community development block grant funding.

The operations of the City's police and fire departments account for one of 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 43 full- and part-time patrolmen and dispatchers. The fire department is staffed by 33 full- and part-time firefighters. The police and fire departments are operated with general fund dollars. The City allocates monies from the inside (unvoted) millage to the police pension and fire pension special revenue funds to pay the employer's portion of retirement and disability benefits to the Ohio Police and Fire Pension Fund.

The City saw increases in almost all programs. The increase in general government is due to the increase in judgements payable of \$11,084,438 as of December 31, 2016. 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
	2016	2015	2016	2015
General Government	\$14,247,008	\$3,777,733	\$12,607,679	\$2,813,919
Security of Persons and Property	7,675,066	6,915,384	5,969,594	4,436,090
Transportation	977,453	793,464	578,595	325,939
Community Development	1,293,291	814,342	168,259	(318,622)
Leisure Time Activities	91,415	58,109	81,286	43,237
Basic Utility Services	1,129,763	1,200,548	984,829	876,107
Interest and Fiscal Charges	108,750	68,928	108,750	68,928
Total	\$25,522,746	\$13,628,508	\$20,498,992	\$8,245,598

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 with the balance sheet and is accounted for using the modified accrual basis of accounting.

City of East Cleveland, Ohio
Management's Discussion and Analysis
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The City's major governmental funds are the general fund and the community development special revenue fund. The City's main operational fund has a deficit fund balance of \$2,927,279 at year end. There were many major factors that resulted in the deficit fund balance. Some of these were a high unemployment rate that resulted in lower municipal tax collections, continued decline in property taxes, and additional outstanding bills due to vendors as well as a decrease in fines and forfeitures and charges for services. The community development fund had an increase in fund balance due to a decrease in community related projects for 2016.

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 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 \$10,108,832 and \$11,003,344 respectively. Actual revenues of \$10,901,499 were \$101,845 lower than the final projections. The original and the final budgeted expenditures were \$10,220,085 and \$11,102,750, respectively. Actual expenditures were \$431,602 lower 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 (\$1,728,600).

Capital Assets and Debt Administration

Capital Assets

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

	Governmental Activities	
	2016	2015
Land	\$656,760	\$920,260
Buildings and Improvements	863,589	918,362
Equipment	204,465	150,922
Vehicles	770,443	876,446
Infrastructure	14,933,543	15,307,491
Totals	\$17,428,800	\$18,173,481

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Management's Discussion and Analysis
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Total capital assets for governmental activities for the City of East Cleveland decreased from 2015 primarily due to the sale of land and yearly depreciation. See Note 10 in the financial statements for more information regarding the City's capital assets.

Debt

The outstanding debt for the City of East Cleveland as of December 31, 2016 has increased.

Table 5
Outstanding Debt at December 31

	Governmental Activities	
	2016	2015
Capital Leases	\$135,700	\$201,756
Police and Fire Liability	1,144,341	1,229,446
OPWC Loans	2,680,623	2,778,101
Net Pension Liability	16,972,956	12,043,326
Totals	<u>\$20,933,620</u>	<u>\$16,252,629</u>

The capital leases are for vehicles, and will be paid from the permanent improvement capital project fund.

The Ohio Public Works Commission (OPWC) governmental activities loans are comprised of seven separate, zero percent interest loans. The purpose for two of the loans is for the construction and improvement of streets. The purpose of five 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. During 2014, the City defaulted on their July 2014 OPWC payment due to cash constraints. The City renegotiated revised payment schedules with OPWC. The loans are now for a forty year period that started in 2014.

GASB 68 establishes standards for measuring and recognizing pension liabilities, deferred outflows/inflows of resources and expense/expenditure.

The police and fire pension liability loan is a specific one-time liability for the unfunded portion of the pension due for employees hired before the Police and Firemen's Disability and Pension Fund was established.

See Note 12 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, 2016. To alleviate the financial shortfall, the City has developed a strategy to stabilize its cash shortfall in the aforementioned funds. See Note 19 for further information.

The City has increased expenditures in 2016. The City continues to struggle to maintain a revenue base to deliver services to the citizens of East Cleveland.

City of East Cleveland, Ohio
Management's Discussion and Analysis
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Unaudited

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 Charles Iyahan, Finance Director, City of East Cleveland, 14340 Euclid Avenue, East Cleveland, Ohio 44112, Telephone (216) 681-2319, e-mail ciyahan@eastcleveland.org.

City of East Cleveland, Ohio

Statement of Net Position

December 31, 2016

	<u>Governmental Activities</u>
Assets	
Equity in Pooled Cash and Cash Equivalents	\$908,152
Accounts Receivable	509,813
Intergovernmental Receivable	2,344,797
Prepaid Items	152,596
Municipal Income Taxes Receivable	3,137,075
Special Assessments Receivable	279,143
Property Taxes Receivable	4,415,628
Nondepreciable Capital Assets	656,760
Depreciable Capital Assets, Net	<u>16,772,040</u>
<i>Total Assets</i>	<u>29,176,004</u>
Deferred Outflows of Resources	
Pension	<u>5,346,880</u>
Liabilities	
Accounts Payable	1,284,940
Accrued Wages	88,248
Contracts Payable	515,461
Intergovernmental Payable	481,853
Judgments Payable	762,514
Accrued Interest Payable	6,430
Claims Payable	39,611
Long-Term Liabilities:	
Due Within One Year	384,216
Due In More Than One Year	
Net Pension Liability (See Note 13)	16,972,956
Other Amounts	<u>15,957,185</u>
<i>Total Liabilities</i>	<u>36,493,414</u>
Deferred Inflows of Resources	
Property Taxes	866,065
Pension	<u>307,347</u>
<i>Total Deferred Inflows of Resources</i>	<u>1,173,412</u>
Net Position	
Net Investment in Capital Assets	14,816,936
Restricted for:	
Capital Projects	1,034,170
Other Purposes	1,813,768
Unrestricted (Deficit)	<u>(20,808,816)</u>
<i>Total Net Position</i>	<u><u>(\$3,143,942)</u></u>

See accompanying notes to the basic financial statements

City of East Cleveland, Ohio
Statement of Activities
For the Year Ended December 31, 2016

	Program Revenues			Net (Expense) Revenue and Changes in Net Position
Expenses	Charges for Services	Operating Grants and Contributions	Governmental Activities	
Governmental Activities:				
General Government	\$14,247,008	\$1,639,329	\$0	(\$12,607,679)
Security of Persons and Property	7,675,066	1,495,218	210,254	(5,969,594)
Transportation	977,453	9,567	389,291	(578,595)
Community Development	1,293,291	11,239	1,113,793	(168,259)
Leisure Time Activities	91,415	10,129	0	(81,286)
Basic Utility Services	1,129,763	130,447	14,487	(984,829)
Interest and Fiscal Charges	108,750	0	0	(108,750)
<i>Total</i>	\$25,522,746	\$3,295,929	\$1,727,825	(20,498,992)
General Revenues				
Property Taxes Levied for:				
General Purposes				818,835
Capital Projects				187,862
Police Pension Liability				27,851
Fire Pension Liability				27,850
Municipal Income Taxes Levied for				
General Purposes				5,808,055
Hotel Tax				2,481
Grants and Entitlements not Restricted to Specific Programs				1,790,769
Other				256,261
<i>Total General Revenues</i>				8,919,964
Change in Net Position				(11,579,028)
<i>Net Position Beginning of Year</i>				8,435,086
<i>Net Position End of Year</i>				(\$3,143,942)

See accompanying notes to the basic financial statements

City of East Cleveland, Ohio

*Balance Sheet
Governmental Funds
December 31, 2016*

	General	Community Development	Other Governmental Funds	Total Governmental Funds
Assets				
Equity in Pooled Cash and Cash Equivalents	\$0	\$58,506	\$568,966	\$627,472
Accounts Receivable	51,072	0	458,741	509,813
Interfund Receivable	0	418,772	1,598,685	2,017,457
Intergovernmental Receivable	939,518	956,716	448,563	2,344,797
Special Assessments Receivable	279,143	0	0	279,143
Municipal Income Taxes Receivable	3,137,075	0	0	3,137,075
Property Taxes Receivable	3,511,640	0	903,988	4,415,628
Prepaid Items	124,304	2,941	25,351	152,596
<i>Total Assets</i>	<u>\$8,042,752</u>	<u>\$1,436,935</u>	<u>\$4,004,294</u>	<u>\$13,483,981</u>
Liabilities				
Accounts Payable	\$1,039,519	\$549	\$244,872	\$1,284,940
Accrued Wages	68,406	2,055	17,787	88,248
Contracts Payable	0	515,461	0	515,461
Intergovernmental Payable	434,550	4,654	42,649	481,853
Judgments Payable	762,514	0	0	762,514
Interfund Payable	1,958,558	0	98,510	2,057,068
<i>Total Liabilities</i>	<u>4,263,547</u>	<u>522,719</u>	<u>403,818</u>	<u>5,190,084</u>
Deferred Inflows of Resources				
Property Taxes	688,762	0	177,303	866,065
Unavailable Revenue	6,017,722	799,640	1,356,472	8,173,834
<i>Total Deferred Inflows of Resources</i>	<u>6,706,484</u>	<u>799,640</u>	<u>1,533,775</u>	<u>9,039,899</u>
Fund Balances				
Nonspendable	124,304	2,941	25,351	152,596
Restricted	0	111,635	2,080,583	2,192,218
Committed	0	0	71,637	71,637
Unassigned (Deficit)	(3,051,583)	0	(110,870)	(3,162,453)
<i>Total Fund Balances (Deficit)</i>	<u>(2,927,279)</u>	<u>114,576</u>	<u>2,066,701</u>	<u>(746,002)</u>
<i>Total Liabilities, Deferred Inflows of Resources and Fund Balances</i>	<u>\$8,042,752</u>	<u>\$1,436,935</u>	<u>\$4,004,294</u>	<u>\$13,483,981</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, 2016*

Total Governmental Funds Balances (746,002)

*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. 17,428,800

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	3,549,563
Municipal Income Taxes	2,290,038
Intergovernmental	1,702,808
Charges for Services	631,425

Total 8,173,834

An internal service fund is used by management to charge the
 costs of insurance to individual funds. The assets and liabilities
 of the internal service fund are included in governmental
 activities in the statement of net position. 280,680

In the statement of net position, interest is accrued on outstanding
 liabilities, whereas in governmental funds, an interest
 expenditure is reported when due. (6,430)

The net pension liability is not due and payable in the current period; therefore, the
 liability and related deferred inflows/outflows are not reported in
 governmental funds:

Deferred Outflows - Pension	5,346,880
Net Pension Liability	(16,972,956)
Deferred Inflows - Pension	(307,347)

Total (11,933,423)

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

OPWC Loans	(2,680,623)
Judgments Payable	(11,431,460)
Capital Leases	(135,700)
Police and Fire Pension Liability	(1,144,341)
Compensated Absences	(949,277)

Total (16,341,401)

Net Position of Governmental Activities (\$3,143,942)

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, 2016

	General	Community Development	Other Governmental Funds	Total Governmental Funds
Revenues				
Property Taxes	\$875,347	\$0	\$258,112	\$1,133,459
Hotel Tax	2,481	0	0	2,481
Municipal Income Taxes	5,623,055	0	0	5,623,055
Intergovernmental	1,793,029	1,123,358	741,232	3,657,619
Fees, Licenses and Permits	260,468	0	191	260,659
Fines and Forfeitures	1,061,601	0	267,430	1,329,031
Rentals	16,088	0	0	16,088
Charges for Services	999,823	300	636,595	1,636,718
Other	210,168	44,183	3,004	257,355
<i>Total Revenues</i>	<u>10,842,060</u>	<u>1,167,841</u>	<u>1,906,564</u>	<u>13,916,465</u>
Expenditures				
Current:				
General Government	2,779,107	0	96,364	2,875,471
Security of Persons and Property	5,016,271	0	1,257,557	6,273,828
Transportation	77,969	0	657,286	735,255
Community Development	90,860	1,066,155	114,270	1,271,285
Leisure Time Activities	85,374	0	0	85,374
Basic Utility Services	1,111,532	0	4,504	1,116,036
Capital Outlay	0	0	155,416	155,416
Debt Service:				
Principal Retirement	0	49,588	199,051	248,639
Interest and Fiscal Charges	0	4,046	104,894	108,940
<i>Total Expenditures</i>	<u>9,161,113</u>	<u>1,119,789</u>	<u>2,589,342</u>	<u>12,870,244</u>
<i>Excess of Revenues Over (Under) Expenditures</i>	<u>1,680,947</u>	<u>48,052</u>	<u>(682,778)</u>	<u>1,046,221</u>
Other Financing Sources (Uses)				
Sale of Capital Assets	263,500	0	0	263,500
Transfers In	0	79,511	490,984	570,495
Transfers Out	(570,495)	0	0	(570,495)
<i>Total Other Financing Sources (Uses)</i>	<u>(306,995)</u>	<u>79,511</u>	<u>490,984</u>	<u>263,500</u>
<i>Net Change in Fund Balances</i>	1,373,952	127,563	(191,794)	1,309,721
<i>Fund Balances (Deficit) Beginning of Year</i>	<u>(4,301,231)</u>	<u>(12,987)</u>	<u>2,258,495</u>	<u>(2,055,723)</u>
<i>Fund Balances (Deficit) End of Year</i>	<u>(\$2,927,279)</u>	<u>\$114,576</u>	<u>\$2,066,701</u>	<u>(\$746,002)</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, 2016*

Net Change in Fund Balances - Total Governmental Funds \$1,309,721

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

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

Capital Outlay	250,742	
Depreciation	(731,923)	
Total		(481,181)

Governmental funds only report the disposal of capital assets to the extent proceeds are received from the sale. In the statement of activities, a gain or loss is reported for each disposal. (263,500)

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

Delinquent Property Taxes	(71,061)	
Municipal Income Taxes	185,000	
Intergovernmental	(139,025)	
Charges for Services	53,433	
Other	(1,094)	
Total		27,253

Contractually required contributions are reported as expenditures in governmental funds; however, the statement of net position reports these amounts as deferred outflows. 894,994

Except for amounts reported as deferred outflows/inflows, changes in the net pension liability are reported as pension expense in the statement of activities. (2,476,518)

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. 248,639

In the statement of activities interest is accrued whereas in governmental funds, an interest expenditure is reported when due. 190

Some expenses 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.

Compensated Absences	51,248	
Judgments Payable	(11,038,017)	
Total		(10,986,769)

The internal service fund used to charge the costs of insurance to individual funds is not reported in the City-wide statement of activities. Governmental fund expenditures and related internal service fund revenue are eliminated. The net revenue (expense) of the internal service fund is allocated among the governmental activities. 148,143

Change in Net Position of Governmental Activities (\$11,579,028)

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, 2016

	Budgeted Amounts			Variance with Final Budget Positive (Negative)
	Original	Final	Actual	
Revenues				
Property Taxes	\$630,914	\$876,985	\$875,347	(\$1,638)
Hotel Tax	1,000	1,120	2,481	1,361
Municipal Income Taxes	5,320,000	5,956,620	5,627,594	(329,026)
Intergovernmental	2,011,931	1,711,412	1,801,310	89,898
Fees, Licenses and Permits	275,000	307,908	281,856	(26,052)
Fines and Forfeitures	742,941	831,845	1,071,418	239,573
Rentals	59,500	66,620	29,588	(37,032)
Charges for Services	930,000	1,041,289	1,001,788	(39,501)
Interest	5	6	0	(6)
Other	137,541	209,539	210,117	578
<i>Total Revenues</i>	10,108,832	11,003,344	10,901,499	(101,845)
Expenditures				
Current:				
General Government	2,969,311	4,030,134	3,809,332	220,802
Security of Persons and Property	5,756,470	5,442,509	5,332,000	110,509
Transportation	41,383	53,402	40,893	12,509
Community Development	109,896	104,574	102,025	2,549
Leisure Time Activities	67,486	88,053	85,727	2,326
Basic Utility Services	1,275,539	1,384,078	1,301,171	82,907
<i>Total Expenditures</i>	10,220,085	11,102,750	10,671,148	431,602
<i>Excess of Revenues Over (Under) Expenditures</i>	(111,253)	(99,406)	230,351	329,757
Other Financing Sources (Uses)				
Sale of Capital Assets	0	0	263,500	263,500
Transfers In	23,339	0	0	0
Transfers Out	(681,451)	(864,470)	(869,262)	(4,792)
<i>Total Other Financing Sources (Uses)</i>	(658,112)	(864,470)	(605,762)	258,708
<i>Net Change in Fund Balance</i>	(769,365)	(963,876)	(375,411)	588,465
<i>Fund Balance (Deficit) Beginning of Year</i>	(1,734,140)	(1,734,140)	(1,734,140)	0
Prior Year Encumbrances Appropriated	380,951	380,951	380,951	0
<i>Fund Balance (Deficit) End of Year</i>	(\$2,122,554)	(\$2,317,065)	(\$1,728,600)	\$588,465

See accompanying notes to the basic financial statements

City of East Cleveland, Ohio
Statement of Revenues, Expenditures and Changes
In Fund Balance - Budget (Non-GAAP Basis) and Actual
Community Development Fund
For the Year Ended December 31, 2016

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
Intergovernmental	\$1,858,503	\$2,030,960	\$1,078,922	(\$952,038)
Charges for Services	0	0	300	300
Other	0	0	44,183	44,183
<i>Total Revenues</i>	<u>1,858,503</u>	<u>2,030,960</u>	<u>1,123,405</u>	<u>(907,555)</u>
Expenditures				
Current:				
Community Development	<u>1,612,139</u>	<u>1,954,513</u>	<u>1,330,163</u>	<u>624,350</u>
<i>Excess of Revenues Over (Under) Expenditures</i>	246,364	76,447	(206,758)	(283,205)
Other Financing Sources (Uses)				
Transfers In	<u>0</u>	<u>0</u>	<u>79,511</u>	<u>79,511</u>
<i>Net Change in Fund Balance</i>	246,364	76,447	(127,247)	(203,694)
<i>Fund Balance (Deficit) Beginning of Year</i>	(321,737)	(321,737)	(321,737)	0
Prior Year Encumbrances Appropriated	<u>302,226</u>	<u>302,226</u>	<u>302,226</u>	<u>0</u>
<i>Fund Balance (Deficit) End of Year</i>	<u>\$226,853</u>	<u>\$56,936</u>	<u>(\$146,758)</u>	<u>(\$203,694)</u>

See accompanying notes to the basic financial statements

City of East Cleveland, Ohio
Statement of Fund Net Position
Proprietary Fund
December 31, 2016

	Internal Service Fund - Insurance
Assets	
Equity in Pooled Cash and Cash Equivalents	\$280,680
Interfund Receivable	39,611
<i>Total Assets</i>	320,291
Liabilities	
Claims Payable	39,611
Net Position	
Unrestricted	\$280,680

See accompanying notes to the basic financial statements

City of East Cleveland, Ohio
*Statement of Revenues,
Expenses and Changes in Fund Net Position
Proprietary Fund
For the Year Ended December 31, 2016*

	<u>Internal Service Fund - Insurance</u>
Operating Revenues	
Charges for Services	\$912,754
Operating Expenses	
Claims	<u>764,611</u>
<i>Change in Net Position</i>	148,143
<i>Net Position Beginning of Year</i>	<u>132,537</u>
<i>Net Position End of Year</i>	<u><u>\$280,680</u></u>

See accompanying notes to the basic financial statements

City of East Cleveland, Ohio
Statement of Cash Flows
Proprietary Fund
For the Year Ended December 31, 2016

	Internal Service Fund - Insurance
Increase (Decrease) in Cash and Cash Equivalents	
Cash Flows from Operating Activities	
Cash Received from Interfund Services Provided	\$1,085,341
Cash Payments for Claims	(937,198)
<i>Net Increase in Cash and Cash Equivalent</i>	148,143
<i>Cash and Cash Equivalents Beginning of Year</i>	132,537
<i>Cash and Cash Equivalents End of Year</i>	\$280,680
 Reconciliation of Operating Income to Net Cash Provided by Operating Activities	
Operating Income	\$148,143
Adjustments:	
(Increase) Decrease in Assets:	
Interfund Receivable	172,587
Increase (Decrease) in Liabilities:	
Claims Payable	(172,587)
<i>Total Adjustments</i>	0
<i>Net Cash Provided by Operating Activities</i>	\$148,143

See accompanying notes to the basic financial statements

City of East Cleveland, Ohio
Statement of Fiduciary Assets and Liabilities
Agency Funds
December 31, 2016

Assets	
Equity in Pooled Cash and Cash Equivalents	\$59,920
Cash and Cash Equivalents in Segregated Accounts	<u>257,092</u>
<i>Total Assets</i>	<u><u>\$317,012</u></u>
 Liabilities	
Deposits Held and Due to Others	<u><u>\$317,012</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, 2016

Note 1 – Description of the City and Reporting Entity

The City of East Cleveland (the “City”) 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 19 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 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.

City of East Cleveland, Ohio
Notes to the Basic Financial Statements
For The Year Ended December 31, 2016

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 activity of the internal service fund is eliminated to avoid "doubling up" revenues and expenses. The statements distinguish between those activities of the City that are governmental and those that are considered business-type. 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.

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. The internal service fund is presented in a single column on the face of the proprietary fund statements. Nonmajor funds are aggregated and presented in a single column. Fiduciary funds are reported by type.

City of East Cleveland, Ohio
Notes to the Basic Financial Statements
For The Year Ended December 31, 2016

Fund Accounting

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

Governmental Funds Governmental funds are those through which most governmental functions 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.

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

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

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

Internal Service Fund The internal service fund accounts for the financing of services provided by one department or agency to other departments or agencies of the City on a cost-reimbursement basis. The City's only internal service fund reports on the hospitalization benefits for employee hospital/medical, prescription and dental plans.

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 account for miscellaneous deposits, municipal court bank accounts and employee deductions.

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, 2016

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.

Like the government-wide statements, the internal service fund is accounted for on 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 this fund are included on the statement of fund net position. The statement of revenues, expenses and changes in fund net position presents increases (i.e., revenues) and decreases (i.e., expenses) in total net position. The statement of cash flows provides information about how the City finances and meets the cash flow needs of its internal service fund.

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 proprietary and 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 7). Revenue from grants, entitlements and donations is recognized in the year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the year when use is first permitted, matching requirements, in which the City must provide local resources to be used for a specified purpose, and expenditure requirements, in which the resources are provided to the City on a reimbursement basis. On the modified accrual basis, revenue from nonexchange transactions must also be available before it can be recognized.

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

City of East Cleveland, Ohio
Notes to the Basic Financial Statements
For The Year Ended December 31, 2016

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. For the City, deferred outflows of resources are reported on the government-wide statement of net position. The deferred outflows of resources related to pension are explained in Note 13.

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, unavailable revenue and pension. Property taxes represent amounts for which there is an enforceable legal claim as of December 31, 2016, but which were levied to finance year 2017 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, charges for services, intergovernmental grants and other. The details of these unavailable revenues are identified on the Reconciliation of Total Governmental Fund Balance to Net Position of Governmental Activities found on page 17. These amounts are deferred and recognized as an inflow of resources in the period the amounts become available. Deferred inflows of resources related to pension are reported on the government-wide statement of net position. (See Note 13)

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.

Pensions

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the pension plans and additions to/deductions from their fiduciary net position have been determined on the same basis as they are reported by the pension systems. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. The pension systems report investments at fair value.

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.

Investment procedures are restricted by the provisions of the Ohio Revised Code. The City received no interest revenue in 2016.

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.

City of East Cleveland, Ohio
Notes to the Basic Financial Statements
For The Year Ended December 31, 2016

Prepaid Items

Payments made to vendors for services that will benefit periods beyond December 31, 2016, 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 acquisition values as of the date received. The City was able to estimate the historical cost for the initial reporting of infrastructure by backtrending (i.e., estimating the current replacement cost of the infrastructure to be capitalized and using an appropriate price-level index to deflate the cost of the acquisition year or estimated acquisition year). The City maintains a capitalization threshold of five hundred dollars. Improvements are capitalized; the costs of normal maintenance and repairs that do not add to the value of the asset or materially extended an asset's life are not.

All capital assets are depreciated except for land. 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:

<u>Description</u>	<u>Estimated Lives</u>
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 column of 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.

City of East Cleveland, Ohio
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For The Year Ended December 31, 2016

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.

Accrued Liabilities and Long-Term Obligations

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

In general, governmental fund payables and accrued liabilities that, once incurred, are paid in a timely manner and in full from current financial resources are reported as obligations of the funds. However, claims and judgments and compensated absences that will be paid from governmental funds are reported as a liability in the fund financial statements only to the extent that they are due for payment during the current year. Long-term loans and capital leases are recognized as a liability on the governmental fund financial statements when due. Net pension liability should be recognized in the governmental funds to the extent that benefit payments are due and payable and the pension plan's fiduciary net position is not sufficient for payment of those benefits.

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.

City of East Cleveland, Ohio
Notes to the Basic Financial Statements
For The Year Ended December 31, 2016

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.

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.

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 pensions, school crossing guard program and law enforcement.

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

Operating Revenues and Expenses

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

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.

City of East Cleveland, Ohio
Notes to the Basic Financial Statements
For The Year Ended December 31, 2016

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

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

Note 3 – 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 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
Special Revenue Funds:			
Police Accrued Liability	\$131,256	\$158,746	(\$27,490)
Fire Accrued Liability	114,017	136,319	(22,302)
Bond Retirement	97,477	146,216	(48,739)

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
Special Revenue Funds	
COPS Grant	\$88,069

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

City of East Cleveland, Ohio
Notes to the Basic Financial Statements
For The Year Ended December 31, 2016

Accountability

The following funds had deficit fund balances as of December 31, 2016:

Fund	Amount
General Fund	\$2,927,279
Special Revenue Funds	
FEMA Grant	105,055
COPS Grant	5,671

The general fund concluded 2016 with a deficit fund balance of \$2,927,279. 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 4 – 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:

Fund Balances	General	Community Development	Other Governmental Funds	Total
<u>Nonspendable:</u>				
Prepays	\$124,304	\$2,941	\$25,351	\$152,596
<u>Restricted for:</u>				
Street Improvements	0	0	269,704	269,704
Police Programs	0	0	83,165	83,165
Fire Programs	0	0	7,116	7,116
Cleveland Water	0	0	227,196	227,196
Court Programs	0	0	945,855	945,855
Community Development Programs	0	111,635	44,006	155,641
Capital Improvements	0	0	458,791	458,791
Other Purposes	0	0	44,750	44,750
Total Restricted	0	111,635	2,080,583	2,192,218
<u>Committed to:</u>				
Ambulance Services	0	0	71,637	71,637
Unassigned (Deficit)	(3,051,583)	0	(110,870)	(3,162,453)
Total Fund Balances (Deficit)	(\$2,927,279)	\$114,576	\$2,066,701	(\$746,002)

City of East Cleveland, Ohio
Notes to the Basic Financial Statements
For The Year Ended December 31, 2016

Note 5 - Budgetary Basis of Accounting

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

1. Revenues are recorded when received in cash (budget) as opposed to when susceptible to accrual (GAAP).
2. Expenditures are recorded when paid in cash (budget) as opposed to when the liability is incurred (GAAP).
3. Encumbrances are treated as expenditures (budget) rather than as restricted, committed or assigned fund balance (GAAP).
4. Unrecorded cash represents amounts received but not reported by the City on the operating statements (budget), but which is reported on the GAAP basis operating statements.
5. Budgetary revenues and expenditures of the water, sewer, and sewer assessments, and consumer deposits 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		Community
	General	Development
GAAP Basis	\$1,373,952	\$127,563
Net Adjustment for Revenue Accruals	416,031	(44,436)
Net Adjustment for Expenditures Accruals	(1,915,252)	413,662
Ending Unrecorded Cash	(55,595)	0
Perspective Differences:		
Water	(806)	0
Sewer	(1,424)	0
Sewer Improvement	(298,767)	0
Consumer Deposits	298,767	0
Encumbrances	(192,317)	(624,036)
Budget Basis	(\$375,411)	(\$127,247)

City of East Cleveland, Ohio
Notes to the Basic Financial Statements
For The Year Ended December 31, 2016

Note 6 – 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.

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, and Government National Mortgage 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 and with certain limitations bonds and other obligations of political subdivisions 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 40 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.

City of East Cleveland, Ohio
Notes to the Basic Financial Statements
For The Year Ended December 31, 2016

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, \$999,135 of the City's bank balance of \$1,260,233 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.

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 7 - Receivables

Receivables at December 31, 2016, 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.

At December 31, 2016, the total amount of delinquent special assessments was \$64,334. These delinquencies will be collected in the general fund.

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 2016 for real and public utility property taxes represents collections of 2015 taxes.

2016 real property taxes are levied after October 1, 2016 on the assessed value as of January 1, 2016, the lien date. Assessed values are established by state law at 35 percent of appraised market value. 2016 real property taxes are collected in and intended to finance 2017.

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.

City of East Cleveland, Ohio
Notes to the Basic Financial Statements
For The Year Ended December 31, 2016

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. 2016 public utility property taxes which became a lien December 31, 2015, are levied after October 1, 2016, and are collected in 2017 with real property taxes.

The full tax rate for all City operations for the year ended December 31, 2016, was \$12.70 per \$1,000 of assessed value. The assessed values of real and tangible personal property upon which 2016 property tax receipts were based are as follows:

Real Estate	
Residential/Agriculture	\$72,524,550
Commercial Industrial/Public Utility	34,638,320
Tangible Personal Property	
Public Utility	11,273,410
Total Valuation	\$118,436,280

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, 2016 and for which there is an enforceable legal claim. In governmental funds, the portion of the receivable not levied to finance 2016 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. Taxes collected by RITA in one month are remitted to the City on the first and tenth business days of the following month. Income tax proceeds are received by the general fund.

Intergovernmental Receivables

A summary of intergovernmental receivables follows:

Governmental Activities	Amount
CDBG/Home Grants	\$956,716
Local Government	856,726
Gas/Excise Tax	143,167
VOCA Grant	115,400
COPS Grant	112,034
Homestead & Rollback	104,106
Permissive Tax	31,158
Motor Vehicle Tax	25,490
Total	\$2,344,797

City of East Cleveland, Ohio
Notes to the Basic Financial Statements
For The Year Ended December 31, 2016

Note 8 - Tax Abatements

As of December 31, 2016, the City provides tax abatements through two Community Reinvestment Areas.

Pursuant to Ohio Revised Code Chapter 5709, the City established two Community Reinvestment Areas to provide property tax abatements to encourage employment growth in the City. Abatements are obtained if the entity meets certain criteria outlined in the Community Reinvestment Area Agreement. The amount of the abatement is deducted from the recipient's tax bill. The values of the taxes being abated are \$217 and \$25,859.

Note 9 – Leases

Capital Leases

The City has a capital lease for 4 police vehicles and 2 salt trucks. 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 \$338,183, the present value of the minimum lease payments at the inception of the leases. These leases are secured by the related property.

Governmental Activities:	
Assets	
Vehicles	\$338,183
Accumulated Depreciation	
Vehicles	50,177
<i>Governmental Activities Capital Assets, Net</i>	\$288,006

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, 2016.

Year	Amount
2017	\$72,875
2018	69,108
	141,983
Less: Amount representing interest	(6,283)
Present Value of minimum lease payments	\$135,700

Operating Leases

The City 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. 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, a related party, 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. The City must provide the lessor written notice at least 90 days prior to termination of the lease.

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Notes to the Basic Financial Statements
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Note 10 - Capital Assets

Capital asset activity for the year ended December 31, 2016, was as follows:

	Balance 12/31/2015	Additions	Deductions	Balance 12/31/2016
Governmental Activities				
<i>Capital Assets not being Depreciated:</i>				
Land	\$920,260	\$0	(\$263,500)	\$656,760
<i>Capital Assets being Depreciated:</i>				
Buildings and Improvements	4,463,784	0	0	4,463,784
Equipment	3,530,288	147,418	0	3,677,706
Vehicles	4,955,148	72,310	0	5,027,458
Infrastructure	23,917,899	31,014	0	23,948,913
<i>Total Capital Assets being Depreciated</i>	<u>36,867,119</u>	<u>250,742</u>	<u>0</u>	<u>37,117,861</u>
<i>Less Accumulated Depreciation:</i>				
Buildings and Improvements	(3,545,422)	(54,773)	0	(3,600,195)
Equipment	(3,379,366)	(93,875)	0	(3,473,241)
Vehicles	(4,078,702)	(178,313)	0	(4,257,015)
Infrastructure	(8,610,408)	(404,962)	0	(9,015,370)
<i>Total Accumulated Depreciation</i>	<u>(19,613,898)</u>	<u>(731,923)</u>	<u>0</u>	<u>(20,345,821)</u>
Total Capital Assets being Depreciated, Net	<u>17,253,221</u>	<u>(481,181)</u>	<u>0</u>	<u>16,772,040</u>
Governmental Activities Capital Assets, Net	<u>\$18,173,481</u>	<u>(\$481,181)</u>	<u>(\$263,500)</u>	<u>\$17,428,800</u>

Depreciation expense was charged to governmental functions as follows:

General Government	\$288,972
Security of Persons and Property	141,982
Leisure Time Activities	3,534
Basic Utility Services	110
Community Environment	3,518
Transportation	293,807
Total Depreciation Expense	<u>\$731,923</u>

Note 11 – Employee Benefits

Compensated Absences

All eligible employees receive 15 sick days per year. Unused sick leave benefits are allowed to accumulate indefinitely. Upon retirement, non-bargaining unit employees and policemen receive payment for one-fourth of accumulated sick leave up to 240 hours. The contracts for Police, Fire and Union Employees, have different language as it relates to sick days; please read the respective contract to determine how many sick days each employee in these categories 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

Since 2014, the City has been self-insured for health care benefits for City Employees. The City contracts with three third party administrators. Claims are administrated by Commerce Benefit Group, Performance Health and Mutual Health Services for medical, dental and vision claims, respectively. The City continues to provide coverage to eligible employees in a four-tiered rate structure as follows:

	<u>Hospital</u>	<u>Dental</u>	<u>Vision</u>
Single	\$40.60	\$8.27	\$5.19
Employee and Spouse	\$74.01	\$24.95	\$15.34
Employee and One Child	\$66.82	\$24.95	\$15.34
Family	\$108.69	\$24.95	\$15.34

Life Insurance

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

Note 12 – Long-Term Obligations

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

<u>Debt Issue</u>	<u>Original Issue</u>	<u>Year of Maturity</u>
Governmental Activities		
OPWC Loans:		
1997 Water Main Project Phase II	\$375,277	2034
2000 Brunswick Road Water Main Improvement Project	23,164	2044
2000 Forest Hills Water Main Project	25,442	2044
2003 Euclid Avenue Rehabilitation	2,951,444	2044
2006 Windermere/Idlewood/Knowles Road	977,988	2044
2008 Belmore Street Waterline Repair Project	102,014	2044
2011 Coit Avenue Sanitary Sewer Replacement	79,551	2044

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

City of East Cleveland, Ohio
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A schedule of changes in long-term obligations of the City during 2016 follows:

	Outstanding 12/31/2015	Additions	(Reductions)	Outstanding 12/31/2016	Due in One Year
Governmental Activities					
<i>OPWC Loans:</i>					
Euclid Avenue Rehabilitation	\$1,892,615	\$0	(\$66,408)	\$1,826,207	\$66,408
Windemere/ Idlewood/ Knowles Road	673,591	0	(23,634)	649,957	23,635
Water Main Project Phase II	56,291	0	(1,976)	54,315	1,975
Brunswick Road Water Main Improvement Project	6,052	0	(212)	5,840	212
Forest Hills Water Main Project	7,251	0	(254)	6,997	254
Belmore Road Waterline Repair Project	79,953	0	(2,806)	77,147	2,807
Coit Avenue Sanitary Sewer Replacement	62,348	0	(2,188)	60,160	2,188
<i>Total OPWC Loans</i>	<u>2,778,101</u>	<u>0</u>	<u>(97,478)</u>	<u>2,680,623</u>	<u>97,479</u>
<i>Other Long-Term Obligations:</i>					
Net Pension Liability					
OPERS	2,380,865	579,513	0	2,960,378	0
OP&F	9,662,461	4,350,117	0	14,012,578	0
<i>Total Net Pension Liability</i>	<u>12,043,326</u>	<u>4,929,630</u>	<u>0</u>	<u>16,972,956</u>	<u>0</u>
Capital Leases	201,756	0	(66,056)	135,700	68,516
Judgments Payable	393,443	11,084,438	(46,421)	11,431,460	61,722
Police and Fire Pension Liability	1,229,446	0	(85,105)	1,144,341	0
Compensated Absences	1,000,525	113,552	(164,800)	949,277	156,499
<i>Total Other Long-Term Obligations</i>	<u>14,868,496</u>	<u>16,127,620</u>	<u>(362,382)</u>	<u>30,633,734</u>	<u>286,737</u>
Total Governmental Activities	<u><u>\$17,646,597</u></u>	<u><u>\$16,127,620</u></u>	<u><u>(\$459,860)</u></u>	<u><u>\$33,314,357</u></u>	<u><u>\$384,216</u></u>

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 judgments payable will be paid from the general 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.

There is no repayment schedule for the net pension liability. However, employer pension contributions are made from the following funds: general, police accrued liability, fire accrued liability, EMS, COPS grant, community development and VOCA grant. For additional information related to the net pension liability see Note 13.

During 2014, the City defaulted on their July 2014 OPWC payment due to cash constraints. The City renegotiated revised payment schedules with OPWC. The loans are now for a forty year period beginning in 2014.

The City's overall legal debt margin was \$12,435,809 at December 31, 2016. Principal and interest requirements to retire long-term obligations outstanding at December 31, 2016, are as follows:

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	Governmental Activities		
	Police and Fire		OPWC
	Liability		Loans
	Principal	Interest	Principal
2017	\$0	\$0	\$97,479
2018	45,319	48,277	97,478
2019	47,270	46,326	97,478
2020	49,305	44,291	97,478
2021	51,428	42,168	97,478
2022-2026	292,323	175,659	487,390
2027-2031	360,915	107,067	487,390
2032-2036	297,781	25,655	487,390
2037-2041	0	0	487,390
2042-2044	0	0	243,672
Total	\$1,144,341	\$489,443	\$2,680,623

During 2016, the City paid its 2016 police and fire liability as well as its 2017 liability.

Note 13 – Defined Benefit Pension Plans

Net Pension Liability

The net pension liability reported on the statement of net position represents a liability to employees for pensions. Pensions are a component of exchange transactions—between an employer and its employees—of salaries and benefits for employee services. Pensions are provided to an employee—on a deferred-payment basis—as part of the total compensation package offered by an employer for employee services each financial period. The obligation to sacrifice resources for pensions is a present obligation because it was created as a result of employment exchanges that already have occurred.

The net pension liability represents the City’s proportionate share of each pension plan’s collective actuarial present value of projected benefit payments attributable to past periods of service, net of each pension plan’s fiduciary net position. The net pension liability calculation is dependent on critical long-term variables, including estimated average life expectancies, earnings on investments, cost of living adjustments and others. While these estimates use the best information available, unknowable future events require adjusting this estimate annually.

Ohio Revised Code limits the City’s obligation for this liability to annually required payments. The City cannot control benefit terms or the manner in which pensions are financed; however, the City does receive the benefit of employees’ services in exchange for compensation including pension.

GASB 68 assumes the liability is solely the obligation of the employer, because (1) they benefit from employee services; and (2) State statute requires all funding to come from these employers. All contributions to date have come solely from these employers (which also includes costs paid in the form of withholdings from employees). State statute requires the pension plans to amortize unfunded liabilities within 30 years. If the amortization period exceeds 30 years, each pension plan’s board must propose corrective action to the State legislature. Any resulting legislative change to benefits or funding could significantly affect the net pension liability. Resulting adjustments to the net pension liability would be effective when the changes are legally enforceable.

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The proportionate share of each plan’s unfunded benefits is presented as a long-term *net pension liability* on the accrual basis of accounting. Any liability for the contractually-required pension contribution outstanding at the end of the year is included in *intergovernmental payable* on both the accrual and modified accrual bases of accounting.

Plan Description – Ohio Public Employees Retirement System (OPERS)

Plan Description - City employees, other than full-time police and firefighters, participate 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 and the combined plan is a cost-sharing, multiple-employer defined benefit pension plan with defined contribution features. While members (e.g. City employees) may elect the member-directed plan and the combined plan, substantially all employee members are in OPERS’ traditional plan; therefore, the following disclosure focuses on the traditional pension plan.

OPERS provides retirement, disability, survivor and death benefits, and annual cost of living adjustments to members of the traditional plan. Authority to establish and amend benefits is provided by Chapter 145 of the Ohio Revised Code. OPERS issues a stand-alone financial report that includes financial statements, required supplementary information and detailed information about OPERS’ fiduciary net position that may be obtained by visiting <https://www.opers.org/financial/reports.shtml>, by writing to the Ohio Public Employees Retirement System, 277 East Town Street, Columbus, Ohio 43215-4642, or by calling 800-222-7377.

Senate Bill (SB) 343 was enacted into law with an effective date of January 7, 2013. In the legislation, members were categorized into three groups with varying provisions of the law applicable to each group. The following table provides age and service requirements for retirement and the retirement formula applied to final average salary (FAS) for the three member groups under the traditional plan as per the reduced benefits adopted by SB 343 (see OPERS CAFR referenced above for additional information, including requirements for reduced and unreduced benefits):

Group A Eligible to retire prior to January 7, 2013 or five years after January 7, 2013	Group B 20 years of service credit prior to January 7, 2013 or eligible to retire ten years after January 7, 2013	Group C Members not in other Groups and members hired on or after January 7, 2013
State and Local	State and Local	State and Local
Age and Service Requirements: Age 60 with 60 months of service credit or Age 55 with 25 years of service credit	Age and Service Requirements: Age 60 with 60 months of service credit or Age 55 with 25 years of service credit	Age and Service Requirements: Age 57 with 25 years of service credit or Age 62 with 5 years of service credit
Formula: 2.2% of FAS multiplied by years of service for the first 30 years and 2.5% for service years in excess of 30	Formula: 2.2% of FAS multiplied by years of service for the first 30 years and 2.5% for service years in excess of 30	Formula: 2.2% of FAS multiplied by years of service for the first 35 years and 2.5% for service years in excess of 35

Final average Salary (FAS) represents the average of the three highest years of earnings over a member’s career for Groups A and B. Group C is based on the average of the five highest years of earnings over a member’s career.

Members who retire before meeting the age and years of service credit requirement for unreduced benefits receive a percentage reduction in the benefit amount.

City of East Cleveland, Ohio
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When a benefit recipient has received benefits for 12 months, an annual cost of living adjustment (COLA) is provided. This COLA is calculated on the base retirement benefit at the date of retirement and is not compounded. For those retiring prior to January 7, 2013, the COLA will continue to be a 3 percent simple annual COLA. For those retiring subsequent to January 7, 2013, beginning in calendar year 2019, the COLA will be based on the average percentage increase in the Consumer Price Index, capped at 3 percent.

Funding Policy - The Ohio Revised Code (ORC) provides statutory authority for member and employer contributions as follows:

	State and Local
2016 Statutory Maximum Contribution Rates	
Employer	14.0 %
Employee	10.0 %
 2016 Actual Contribution Rates	
Employer:	
Pension	12.0 %
Post-employment Health Care Benefits	2.0
Total Employer	14.0 %
Employee	10.0 %

Employer contribution rates are actuarially determined and are expressed as a percentage of covered payroll. The City's contractually required contribution was \$260,759 for 2016. Of this amount, \$23,991 is reported as an intergovernmental payable.

Plan Description – Ohio Police & Fire Pension Fund (OP&F)

Plan Description - City full-time police and firefighters participate in Ohio Police and Fire Pension Fund (OP&F), a cost-sharing, multiple-employer defined benefit pension plan administered by OP&F. OP&F provides retirement and disability pension benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Benefit provisions are established by the Ohio State Legislature and are codified in Chapter 742 of the Ohio Revised Code. OP&F issues a publicly available financial report that includes financial information and required supplementary information and detailed information about OP&F fiduciary net position. The report that may be obtained by visiting the OP&F website at www.op-f.org or by writing to the Ohio Police and Fire Pension Fund, 140 East Town Street, Columbus, Ohio 43215-5164.

Upon attaining a qualifying age with sufficient years of service, a member of OP&F may retire and receive a lifetime monthly pension. OP&F offers four types of service retirement: normal, service commuted, age/service commuted and actuarially reduced. Each type has different eligibility guidelines and is calculated using the member's average annual salary. The following discussion of the pension formula relates to normal service retirement.

For members hired after July 1, 2013, the minimum retirement age is 52 for normal service retirement with at least 25 years of service credit. For members hired on or before after July 1, 2013, the minimum retirement age is 48 for normal service retirement with at least 25 years of service credit.

City of East Cleveland, Ohio
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The annual pension benefit for normal service retirement is equal to a percentage of the allowable average annual salary. The percentage equals 2.5 percent for each of the first 20 years of service credit, 2.0 percent for each of the next five years of service credit and 1.5 percent for each year of service credit in excess of 25 years. The maximum pension of 72 percent of the allowable average annual salary is paid after 33 years of service credit.

Under normal service retirement, retired members who are at least 55 years old and have been receiving OP&F benefits for at least one year may be eligible for a cost-of-living allowance adjustment. The age 55 provision for receiving a COLA does not apply to those who are receiving a permanent and total disability benefit and statutory survivors.

Members retiring under normal service retirement, with less than 15 years of service credit on July 1, 2013, will receive a COLA equal to either three percent or the percent increase, if any, in the consumer price index (CPI) over the 12-month period ending on September 30 of the immediately preceding year, whichever is less. The COLA amount for members with at least 15 years of service credit as of July 1, 2013, is equal to three percent of their base pension or disability benefit.

Funding Policy - The Ohio Revised Code (ORC) provides statutory authority for member and employer contributions as follows:

	Police	Firefighters
2016 Statutory Maximum Contribution Rates		
Employer	19.50 %	24.00 %
Employee	12.25 %	12.25 %
 2016 Actual Contribution Rates		
Employer:		
Pension	19.00 %	23.50 %
Post-employment Health Care Benefits	0.50	0.50
Total Employer	19.50 %	24.00 %
Employee	12.25 %	12.25 %

Employer contribution rates are expressed as a percentage of covered payroll. The City's contractually required contribution to OP&F was \$634,235 for 2016. Of this amount, \$62,582 is reported as an intergovernmental payable.

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

The net pension liability for OPERS was measured as of December 31, 2015, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. OP&F's total pension liability was measured as of December 31, 2015, and was determined by rolling forward the total pension liability as of January 1, 2015, to December 31, 2015. The City's proportion of the net pension liability was based on the City's share of contributions to the pension plan relative to the contributions of all participating entities. Following is information related to the proportionate share and pension expense:

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	<u>OPERS</u>	<u>OP&F</u>	
Proportion of the Net Pension Liability:			
Current Measurement Date	0.017091%	0.217821%	
Prior Measurement Date	<u>0.019740%</u>	<u>0.186519%</u>	
Change in Proportionate Share	<u>-0.002649%</u>	<u>0.031302%</u>	
			<u>Total</u>
Proportionate Share of the Net Pension Liability	\$2,960,378	\$14,012,578	\$16,972,956
Pension Expense	\$317,939	\$2,158,579	\$2,476,518

At December 31, 2016, the City reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>OPERS</u>	<u>OP&F</u>	<u>Total</u>
Deferred Outflows of Resources			
Net difference between projected and actual earnings on pension plan investments	\$870,166	\$2,280,710	\$3,150,876
Changes in proportion and differences between City contributions and proportionate share of contributions	0	1,301,010	1,301,010
City contributions subsequent to the measurement date	<u>260,759</u>	<u>634,235</u>	<u>894,994</u>
Total Deferred Outflows of Resources	<u>\$1,130,925</u>	<u>\$4,215,955</u>	<u>\$5,346,880</u>
Deferred Inflows of Resources			
Differences between expected and actual experience	\$57,200	\$39,347	\$96,547
Changes in proportion and differences between City contributions and proportionate share of contributions	<u>210,800</u>	<u>0</u>	<u>\$210,800</u>
Total Deferred Inflows of Resources	<u>\$268,000</u>	<u>\$39,347</u>	<u>\$307,347</u>

\$894,994 reported as deferred outflows of resources related to pension resulting from City contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ending December 31, 2017. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pension will be recognized in pension expense as follows:

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Year Ending December 31:	OPERS	OP&F	Total
2017	\$93,050	\$843,668	\$936,718
2018	106,964	843,668	950,632
2019	205,234	843,668	1,048,902
2020	196,918	713,064	909,982
2021	0	250,676	250,676
Thereafter	0	47,629	47,629
Total	<u>\$602,166</u>	<u>\$3,542,373</u>	<u>\$4,144,539</u>

Actuarial Assumptions - OPERS

Actuarial valuations of an ongoing plan involve estimates of the values of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and cost trends. Actuarially determined amounts are subject to continual review or modification as actual results are compared with past expectations and new estimates are made about the future.

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employers and plan members) and include the types of benefits provided at the time of each valuation. The total pension liability was determined by an actuarial valuation as of December 31, 2015, using the following actuarial assumptions applied to all periods included in the measurement in accordance with the requirements of GASB 67. Key methods and assumptions used in the latest actuarial valuations are presented below.

Wage Inflation	3.75 percent
Future Salary Increases, including inflation COLA or Ad Hoc COLA:	4.25 to 10.05 percent including wage inflation
Pre-January 7, 2013 Retirees	3 percent, simple
Post-January 7, 2013 Retirees	3 percent, simple through 2018, then 2.8 percent, simple
Investment Rate of Return	8 percent
Actuarial Cost Method	Individual Entry Age

Mortality rates were based on the RP-2000 Mortality Table projected 20 years using Projection Scale AA. For males, 105 percent of the combined healthy male mortality rates were used. For females, 100 percent of the combined healthy female mortality rates were used. The mortality rates used in evaluating disability allowances were based on the RP-2000 mortality table with no projections. For males 120 percent of the disabled female mortality rates were used set forward two years. For females, 100 percent of the disabled female mortality rates were used.

The most recent experience study was completed for the five year period ended December 31, 2010.

The long-term rate of return on defined benefit investment assets was determined using a building-block method in which best-estimate ranges of expected future real rates of return are developed for each major asset class. These ranges are combined to produce the long-term expected real rate of return by weighting the expected future real rates of return by the target asset allocation percentage, adjusted for inflation.

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OPERS manages investments in four investment portfolios: the Defined Benefits portfolio, the Health Care portfolio, the 115 Health Care Trust portfolio and the Defined Contribution portfolio. The Defined Benefit portfolio includes the investment assets of the Traditional Pension Plan, the defined benefit component of the Combined Plan, the annuitized accounts of the Member-Directed Plan and the VEBA Trust. Within the Defined Benefit portfolio, contributions into the plans are all recorded at the same time, and benefit payments all occur on the first of the month. Accordingly, the money-weighted rate of return is considered to be the same for all plans within the portfolio. The money weighted rate of return, net of investments expense, for the Defined Benefit portfolio is 0.4 percent for 2015.

The allocation of investment assets with the Defined Benefit portfolio is approved by the Board of Trustees as outlined in the annual investment plan. Plan assets are managed on a total return basis with a long-term objective of achieving and maintaining a fully funded status for the benefits provided through the defined benefit pension plans. The table below displays the Board-approved asset allocation policy for 2015 and the long-term expected real rates of return:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Weighted Average Long-Term Expected Real Rate of Return (Arithmetic)</u>
Fixed Income	23.00 %	2.31 %
Domestic Equities	20.70	5.84
Real Estate	10.00	4.25
Private Equity	10.00	9.25
International Equities	18.30	7.40
Other investments	18.00	4.59
Total	100.00 %	5.27 %

Discount Rate The discount rate used to measure the total pension liability was 8 percent. The projection of cash flows used to determine the discount rate assumed that contributions from plan members and those of the contributing employers are made at the contractually required rates, as actuarially determined. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefits payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Sensitivity of the City's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate The following table presents the City's proportionate share of the net pension liability calculated using the current period discount rate assumption of 8 percent, as well as what the City's proportionate share of the net pension liability would be if it were calculated using a discount rate that is one-percentage-point lower (7 percent) or one-percentage-point higher (9 percent) than the current rate:

	<u>1% Decrease (7.00%)</u>	<u>Current Discount Rate (8.00%)</u>	<u>1% Increase (9.00%)</u>
City's proportionate share of the net pension liability	\$4,716,603	\$2,960,378	\$1,479,055

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Changes between Measurement Date and Report Date

In October 2016, the OPERS Board adopted certain assumption changes which will impact their annual actuarial valuation prepared as of December 31, 2016. The most significant change is a reduction in the discount rate from 8.0 percent to 7.5 percent. Although the exact amount of these changes is not known, the impact to the City's net pension liability is expected to be significant.

Actuarial Assumptions – OP&F

OP&F's total pension liability as of December 31, 2015, is based on the results of an actuarial valuation date of January 1, 2015, and rolled-forward using generally accepted actuarial procedures. The total pension liability is determined by OP&F's actuaries in accordance with GASB Statement No. 67, as part of their annual valuation. Actuarial valuations of an ongoing plan involve estimates of reported amounts and assumptions about probability of occurrence of events far into the future. Examples include assumptions about future employment mortality, salary increases, disabilities, retirements and employment terminations. Actuarially determined amounts are subject to continual review and potential modifications, as actual results are compared with past expectations and new estimates are made about the future.

Key methods and assumptions used in calculating the total pension liability in the latest actuarial valuation, prepared as of January 1, 2015, are presented below:

Valuation Date	January 1, 2015
Actuarial Cost Method	Entry Age Normal
Investment Rate of Return	8.25 percent
Projected Salary Increases	4.25 percent to 11 percent
Payroll Increases	3.75 percent
Inflation Assumptions	3.25 percent
Cost of Living Adjustments	2.60 percent and 3.00 percent, simple

Rates of death are based on the RP2000 Combined Table, age-adjusted as follows. For active members, set back six years. For disability retirements, set forward five years for police and three years for firefighters. For service retirements, set back zero years for police and two years for firefighters. For beneficiaries, set back zero years. The rates are applied on a fully generational basis, with a base year of 2009, using mortality improvement Scale AA.

The most recent experience study was completed January 1, 2012.

The long-term expected rate of return on pension plan investments was determined using a building-block approach and assumes a time horizon, as defined in the Statement of Investment Policy. A forecasted rate of inflation serves as the baseline for the return expectation. Various real return premiums over the baseline inflation rate have been established for each asset class. The long-term expected nominal rate of return has been determined by calculating a weighted averaged of the expected real return premiums for each asset class, adding the projected inflation rate and adding the expected return from rebalancing uncorrelated asset classes. Best estimates of the long-term expected geometric real rates of return for each major asset class included in OP&F's target asset allocation as of December 31, 2015, are summarized as follows:

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Asset Class	Target Allocation	10 Year Expected Real Rate of Return**	30 Year Expected Real Rate of Return**
Cash and Cash Equivalents	- %	0.00 %	0.00 %
Domestic Equity	16.00	6.50	7.80
Non-US Equity	16.00	6.70	8.00
Core Fixed Income *	20.00	3.50	5.35
Global Inflation Protected Securities*	20.00	3.50	4.73
High Yield	15.00	6.35	7.21
Real Estate	12.00	5.80	7.43
Private Markets	8.00	9.50	10.73
Timber	5.00	6.55	7.35
Master Limited Partnerships	8.00	9.65	10.75
Total	<u>120.00 %</u>		

Note: Assumptions are geometric.

* levered 2x

** Numbers are net of expected inflation

OP&F's Board of Trustees has incorporated the "risk parity" concept into OP&F's asset liability valuation with the goal of reducing equity risk exposure, which reduces overall Total Portfolio risk without sacrificing return, and creating a more risk-balanced portfolio based on their relationship between asset classes and economic environments. From the notional portfolio perspective above, the Total Portfolio may be levered up to 1.2 times due to the application of leverage in certain fixed income asset classes.

Discount Rate The total pension liability was calculated using the discount rate of 8.25 percent. The projection of cash flows used to determine the discount rate assumed the contributions from employers and from the members would be computed based on contribution requirements as stipulated by State statute. Projected inflows from investment earning were calculated using the longer-term assumed investment rate of return 8.25 percent. Based on those assumptions, the plan's fiduciary net position was projected to be available to make all future benefit payments of current plan members. Therefore, a long-term expected rate of return on pension plan investments was applied to all periods of projected benefits to determine the total pension liability.

Sensitivity of the City's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate Net pension liability is sensitive to changes in the discount rate, and to illustrate the potential impact the following table presents the net pension liability calculated using the discount rate of 8.25 percent, as well as what the net pension liability would be if it were calculated using a discount rate that is one percentage point lower (7.25 percent), or one percentage point higher (9.25 percent) than the current rate.

	1% Decrease (7.25%)	Current Discount Rate (8.25%)	1% Increase (9.25%)
City's proportionate share of the net pension liability	\$18,480,713	\$14,012,578	\$10,227,627

City of East Cleveland, Ohio
Notes to the Basic Financial Statements
For The Year Ended December 31, 2016

Note 14 – Postemployment Benefits

Ohio Public Employees Retirement System

Plan Description - The 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 maintained two cost-sharing, multiple-employer defined benefit postemployment health care trusts, which funded multiple health care plans including medical coverage, prescription drug coverage, deposits to a Health Reimbursement Arrangement and Medicare Part B premium reimbursements, to qualifying benefit recipients of both the traditional pension and the combined plans. Members of the member-directed plan do not qualify for ancillary benefits, including OPERS sponsored health care coverage.

In order to qualify for postemployment health care coverage, age and service retirees under the traditional pension and combined plans must have twenty or more years of qualifying Ohio service credit. Health care coverage for disability benefit recipients and qualified survivor benefit recipients is available. The health care coverage provided by OPERS meets the definition of an Other Post Employment Benefit (OPEB) as described in GASB Statement 45. See OPERS' CAFR referenced below for additional information.

The Ohio Revised Code permits, but does not require OPERS to provide health care to its eligible benefit recipients. Authority to establish and amend health care coverage is provided to the Board in Chapter 145 of the Ohio Revised Code.

Disclosures for the health care plan are presented separately in the OPERS financial report. Interested parties may obtain a copy by visiting <https://www.opers.org/financial/reports.shtml>, by writing to OPERS, 277 East Town Street, Columbus, Ohio 43215-4642, or by calling (614) 222-5601 or 800-222-7377.

Funding Policy - The Ohio Revised Code provides the statutory authority requiring public employers to fund postemployment health care through their contributions to OPERS. A portion of each employer's contribution to OPERS is set aside to fund OPERS health care plans.

Employer contribution rates are expressed as a percentage of the earnable salary of active members. In 2016, state and local employers contributed at a rate of 14.0 percent of earnable salary and public safety and law enforcement employers contributed at 18.1 percent. These are the maximum employer contribution rates permitted by the Ohio Revised Code. Active member contributions do not fund health care.

At the beginning of 2016, OPERS maintained three health care trusts. The two cost-sharing, multiple employer trusts, the 401(h) Health Care Trust (401(h) Trust) and the 115 Health Care Trust (115 Trust), worked together to provide health care funding to eligible retirees of the Traditional Pension and Combined plans. Each year, the OPERS Board of Trustees determines the portion of the employer contributions rate that will be set aside to fund health care plans. As recommended by OPERS' actuary, the portion of employer contributions allocated to health care beginning January 1, 2016 remained at 2.0 percent for both the Traditional Pension and Combined plans. As recommended by the OPERS actuary, the portion of employer contribution allocated to healthcare beginning January 1, 2017 decreased to 1.0 percent for both plans. The Board is also authorized to establish rules for the retiree or their surviving beneficiaries to pay a portion of the health care provided. Payment amounts vary depending on the number of covered dependents and the coverage selected. The third trust is a Voluntary Employee's Beneficiary Association (VEBA) Trust that provides funding for a Retiree Medical Account (RMA) for Member-Directed Plan members. The employer contribution as a percentage of covered payroll deposited to the RMAs for 2016 was 4.0 percent.

City of East Cleveland, Ohio
Notes to the Basic Financial Statements
For The Year Ended December 31, 2016

In March 2016, OPERS received two favorable rulings from the IRS allowing OPERS to consolidate all health care assets into the 115 Trust. Transition to the new health care trust structure occurred during 2016. OPERS Combining Statements of Changes in Fiduciary Net Position for the year ended December 31, 2016, will reflect a partial year of activity in the 401(h) Trust and VEBA Trust prior to the termination of these trusts as of end of business day June 30, 2016, and the assets and liabilities, or net position, of these trusts being consolidated into the 115 Trust on July 1, 2016.

Substantially all of the City's contribution allocated to fund postemployment health care benefits relates to the cost-sharing, multiple employer trusts. The corresponding contribution for the years ended December 31, 2016, 2015 and 2014 was \$43,460, \$42,564 and \$61,702, respectively. For 2016, 91 percent has been contributed with the balance being reported as an intergovernmental payable. The full amount has been contributed for 2015 and 2014.

Ohio Police and Fire Pension Fund

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

OPF provides access to postretirement health care coverage for any person who receives or is eligible to receive a monthly service, disability, or statutory survivor benefit, or is a spouse or eligible dependent child of such person. The health care coverage provided by OPF meets the definition of an Other Post Employment Benefit (OPEB) as described in Government Accounting Standards Board (GASB) Statement No. 45.

The Ohio Revised Code allows, but does not mandate, OPF to provide OPEB benefits. Authority for the OPF 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.

OPF issues a publicly available financial report that includes financial information and required supplementary information for the plan. The report may be obtained by visiting the OPF website at www.opf.org or by writing to the Ohio Police and Fire Pension Fund, 140 East Town Street, Columbus, Ohio 43215-5164.

Funding Policy - The Ohio Revised Code provides for contribution requirements of the participating employers and of plan members to the OPF defined benefit pension plan. Participating employers are required to contribute to the pension plan at rates expressed as percentages of the payroll of active pension plan members, currently 19.5 percent and 24 percent of covered payroll for police and fire employer units. Active members do not make contributions to the OPEB Plan.

OPF 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 OPF Board of Trustees.

City of East Cleveland, Ohio
Notes to the Basic Financial Statements
For The Year Ended December 31, 2016

The Board of Trustees is authorized to allocate a portion of the total employer contributions made into the pension plan to the Section 115 trust and the Section 401(h) account as the employer contribution for retiree health care benefits. For 2016, the portion of employer contributions allocated to health care was 0.5 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 Sections 115 and 401(h).

The OPF 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 contribution to OPF for the years ended December 31, 2016, 2015 and 2014 were \$878,207, \$834,025 and \$938,692, respectively, of which \$19,820, \$18,897 and \$21,366, respectively, was allocated to the healthcare plan. For 2016, 93 percent has been contributed for both police and firefighters with the balance being reported as an intergovernmental payable. The full amount has been contributed for 2015 and 2014.

Note 15 – 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, 2016.

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 expects to prevail; however there can be no assurance that the City will be successful in its defense.

The following lists the cases for which the City has recorded a liability as of December 31, 2016 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, 2016 financial statements. \$21,421 of the judgment is considered due and payable and is reflected as a fund liability. The remaining \$52,022 is a long term judgments payable on the 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

City of East Cleveland, Ohio
Notes to the Basic Financial Statements
For The Year Ended December 31, 2016

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 through 2021 with the remaining \$20,000 to be paid in 2022. As of December 31, 2016, \$145,000 has been accrued as a long-term judgments payable.

Savage v. City of East Cleveland During 2009, Nestor filed bankruptcy and claimed the City of 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, 2016, the City has accrued \$638,093 as a judgments payable on the financial statements. The judgment is considered due and payable and is reflected as a fund liability on the financial statements.

East Cleveland Firefighters IAFF v. City of East Cleveland During 2016, judgement was awarded to the East Cleveland Firefighters, IAFF Local 500, AFI-CIO, and Thomas Buth for the City's failure to comply with the terms of a temporary restraining order and preliminary injunction. As of December 31, 2016, the City has accrued \$103,000 as a judgments payable on the financial statements. The judgment is considered due and payable and is reflected as a fund liability on the financial statements.

Ceasor v. City of East Cleveland, et al. During 2015, Christopher Kimble entered an intersection and was struck by an East Cleveland police car on an emergency run. As the administrator of the estate of decedent Mr. Kimble, Ms. Ceasor filed a five-count Complaint in 2016. During 2017, the City filed a motion for summary judgment and a motion to dismiss arguing that none of the exceptions to sovereign immunity in R.C. 2744.02(B) apply to this case and that Ceasor failed to present evidence sufficient to create genuine issue of material fact. The trial court denied the City's motions and the City appealed to the Eighth District Court of Appeals. The Eighth District Court of Appeals affirmed the lower court's denial, and remanded the matter to a jury trial. In February 2019, the City arrived at a settlement with the plaintiff for \$150,000. As of December 31, 2016, the City has accrued \$150,000 as a long-term judgements payable on the financial statements.

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. As of December 31, 2016, the City has accrued \$11,084,438 as a long-term judgements payable on the financial statements. The judgment payable includes the verdict of \$8,617,180 and prejudgment interest of \$2,467,258.

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.

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

City of East Cleveland, Ohio
Notes to the Basic Financial Statements
For The Year Ended December 31, 2016

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. In November of 2018, a jury found that their civil rights were violated and awarded the defendants \$5 million each. The City plans on appealing the decision to the Sixth Circuit Court of Appeals and, if necessary, the U.S. Supreme Court. The City also plans on appealing the anticipated judgment liens through the State Court System.

Derrico v. Moore, et al. The case alleges that three City police officers mistreated individuals 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 16 – Interfund Balances and Transfers

Interfund Balances

Interfund balances at December 31, 2016 consisted of the following:

Interfund Payable	Interfund Receivable			Total
	Community Development	Other Governmental Funds	Internal Service Fund	
General Fund	\$418,772	\$1,503,708	\$36,078	\$1,958,558
Other Governmental Funds	0	94,977	3,533	98,510
Total Governmental Funds	\$418,772	\$1,598,685	\$39,611	\$2,057,068

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

Interfund Transfers

Transfer In	Transfer Out General
Community Development	\$79,511
Other Governmental Funds	
Police Pension	73,830
Fire Pension	62,718
FEMA	5,114
Older Americans	10,614
VOCA	148,102
Debt Service	190,606
Total Governmental Funds	\$570,495

City of East Cleveland, Ohio
Notes to the Basic Financial Statements
For The Year Ended December 31, 2016

The general fund transfers to the debt service fund were to meet principal and interest requirements as they came due. The general fund transfers to the remaining other governmental funds were made to provide additional resources for current operations.

Note 17 – Risk Management

Property and Liability

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 2016, the City contracted with Love Insurance for blanket building and business personal property general liability insurance with \$19,951,440 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 has elected to provide employee hospital/medical, prescription and dental benefits through a self-insured program. The City established an internal service fund to account for and finance the cost of this program.

The claims liability of \$39,611 as estimated by the third party administrator and reported in the hospitalization internal service fund at December 31, 2016, is based on the requirements of GASB Statement No. 30 which requires that a liability for unpaid claims costs, including estimates of costs relating to incurred but not reported claims, be reported. The estimate was not affected by incremental claims adjustment expenses and does not include other allocated or unallocated claim adjustment expenses. Changes in the fund claims liability amount in 2015 and 2016 were as follows:

	Balance at Beginning of Year	Current Year Claims	Claim Payments	Balance at End of Year
2015	\$328,467	\$1,375,750	\$1,492,019	\$212,198
2016	212,198	764,611	937,198	39,611

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 18 – 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:

General	\$192,317
Community Development	624,036
Other Governmental Funds	177,021
Total Governmental Funds	\$993,374

City of East Cleveland, Ohio
Notes to the Basic Financial Statements
For The Year Ended December 31, 2016

Note 19 – 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 20 – Change in Accounting Principle

For 2016, the City implemented Governmental Accounting Standards Board (GASB) Statement No. 72, "Fair Value Measurement and Application," GASB Statement No 73, "Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68," GASB Statement No. 76, "The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments," GASB Statement No. 77, "Tax Abatement Disclosures," GASB Statement No. 79, "Certain External Investment Pools and Pool Participants" and GASB Statement No. 82, "Pension Issues an Amendment of GASB Statements No. 67, No. 68 and No. 73."

GASB Statement No. 72 addresses accounting and financial reporting issues related to fair value measurements. This Statement provides guidance for determining a fair value measurement for financial reporting purposes for applying fair value to certain investments and disclosures related to all fair value measurements. These changes were incorporated in the City's 2016 financial statements; however, there was no effect on beginning net position/fund balance.

GASB Statement No. 73 establishes requirements for defined benefit pensions that are not within the scope of Statement No. 68, *Accounting and Financial Reporting for Pensions*, as well as for the assets accumulated for purposes of providing those pensions. It also amends certain provisions of Statement No. 67, *Financial Reporting for Pension Plans*, and Statement 68. The implementation of this GASB pronouncement did not result in any changes to the City's financial statements.

City of East Cleveland, Ohio
Notes to the Basic Financial Statements
For The Year Ended December 31, 2016

GASB Statement No. 76 identifies-in the context of the current governmental financial reporting environment-the sources of accounting principles used to prepare financial statements of state and local governmental entities in conformity with generally accepted accounting principles (GAAP) and the framework for selecting those principles. The implementation of this GASB pronouncement did not result in any changes to the City's financial statements.

GASB Statement No. 77 requires disclosure of information about the nature and magnitude of tax abatements. These changes were incorporated in the City's 2016 financial statements; however, there was no effect on beginning net position/fund balance.

GASB Statement No. 79 establishes accounting and financial reporting standards for qualifying external investment pools that elect to measure for financial reporting purposes all of their investments at amortized cost. This Statement provides accounting and financial reporting guidance also establishes additional note disclosure requirements for governments that participate in those pools. The implementation of this GASB pronouncement did not result in any changes to the City's financial statements.

GASB Statement No. 82 improves consistency in the application of pension accounting. These changes were incorporated in the City's 2016 financial statements; however, there was no effect on beginning net position/fund balance.

Note 21 – 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. The City also leases with King Management Group for storage space for the Municipal Court and the finance department. King Management Group is owned by Brandon King, a City Councilman who became interim mayor on December 27, 2016. During 2016, the City paid rental costs of \$11,181, \$4,800 and \$6,000 respectively.

Required Supplementary Information

City of East Cleveland, Ohio
Required Supplementary Information
Schedule of the City's Proportionate Share of the
Net Pension Liability
Ohio Public Employees Retirement System - Traditional Plan
*Last Three Years (1)**

	<u>2016</u>	<u>2015</u>	<u>2014</u>
City's Proportion of the Net Pension Liability	0.017091%	0.019740%	0.019740%
City's Proportionate Share of the Net Pension Liability	\$2,960,378	\$2,380,865	\$2,327,089
City's Covered Payroll	\$2,128,192	\$2,420,125	\$2,777,508
City's Proportionate Share of the Net Pension Liability as a Percentage of its Covered Payroll	139.10%	98.38%	83.78%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	81.08%	86.45%	86.36%

(1) Although this schedule is intended to reflect information for ten years, information prior to 2014 is not available. An additional column will be added each year.

*Amounts presented for each year were determined as of the City's measurement date which is the prior year end.

City of East Cleveland, Ohio
Required Supplementary Information
Schedule of the City's Proportionate Share of the
Net Pension Liability
Ohio Police and Fire Pension Fund
*Last Three Years (1)**

	2016	2015	2014
City's Proportion of the Net Pension Liability	0.217821%	0.186519%	0.186519%
City's Proportionate Share of the Net Pension Liability	\$14,012,578	\$9,662,461	\$9,084,060
City's Covered Payroll	\$4,318,736	\$3,668,106	\$4,426,159
City's Proportionate Share of the Net Pension Liability as a Percentage of its Covered Payroll	324.46%	263.42%	205.24%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	66.77%	71.71%	73.00%

(1) Although this schedule is intended to reflect information for ten years, information prior to 2014 is not available. An additional column will be added each year.

*Amounts presented for each year were determined as of the City's measurement date which is the prior year end.

City of East Cleveland, Ohio
Required Supplementary Information
Schedule of the City's Contributions
Ohio Public Employees Retirement System - Traditional Plan
Last Four Years (1)

	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>
Contractually Required Contribution	\$260,759	\$255,383	\$290,415	\$361,076
Contributions in Relation to the Contractually Required Contribution	<u>(260,759)</u>	<u>(255,383)</u>	<u>(290,415)</u>	<u>(361,076)</u>
Contribution Deficiency (Excess)	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>
City Covered Payroll	\$2,172,992	\$2,128,192	\$2,420,125	\$2,777,508
Contributions as a Percentage of Covered Payroll	12.00%	12.00%	12.00%	13.00%

(1) Although this schedule is intended to reflect information for ten years, information prior to 2013 is not available. An additional column will be added each year.

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City of East Cleveland, Ohio
Required Supplementary Information
Schedule of the City's Contributions
Ohio Police and Fire Pension Fund
Last Ten Years

	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>
Contractually Required Contribution	\$634,235	\$934,392	\$780,570	\$804,114
Contributions in Relation to the Contractually Required Contribution	<u>(634,235)</u>	<u>(934,392)</u>	<u>(780,570)</u>	<u>(804,114)</u>
Contribution Deficiency (Excess)	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>
City Covered Payroll	\$2,930,283	\$4,318,736	\$3,668,106	\$4,426,159
Contributions as a Percentage of Covered Payroll	21.64%	21.64%	21.28%	18.17%

2012	2011	2010	2009	2008	2007
\$790,503	\$721,133	\$753,465	\$672,309	\$715,420	\$482,005
<u>(790,503)</u>	<u>(721,133)</u>	<u>(753,465)</u>	<u>(672,309)</u>	<u>(715,420)</u>	<u>(482,005)</u>
<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>
\$5,232,484	\$4,749,649	\$4,918,442	\$4,455,694	\$4,721,175	\$3,272,022
15.11%	15.18%	15.32%	15.09%	15.15%	14.73%

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City of East Cleveland, Ohio

Single Audit Reports

For the Year Ended December 31, 2016

City of East Cleveland, Ohio

For the Year Ended December 31, 2016

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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
City of 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, 2016, and the related notes to the financial statements, which collectively comprise the City’s basic financial statements and have issued our report thereon dated May 13, 2019, 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 19, 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.

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.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section 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. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings and questioned costs that we consider to be material weaknesses: items 2016-001 through 2016-005.

Honorable Mayor and
Members of the City Council
City of 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 2016-006 through 2016-007.

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.

Cimini + Panichi, Inc.

Cleveland, Ohio
May 13, 2019

Where Relationships Count.

**Independent Auditor’s Report on Compliance for Each Major Program;
Internal Control Over Compliance; and Report on the Schedule of Expenditures of
Federal Awards Required by the Uniform Guidance**

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

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 Compliance Supplement* that could have a direct and material effect on the City’s major federal program for the year ended December 31, 2016. The City’s major federal program is 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 the City’s major federal program 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 the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance 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 the major federal program. However, our audit does not provide a legal determination of the City’s compliance.

Opinion on the 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 its major federal program for the year ended December 31, 2016.

Honorable Mayor and
Members of the City Council
City of 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 the Uniform Guidance and which is described in the accompanying schedule of findings and questioned costs as item 2016-009. Our opinion on the 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 the major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for the major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, 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.

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.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. We identified a deficiency in internal control over compliance, as described in the accompanying schedule of findings and questioned costs as item 2016-008, that we consider 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
City of 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 the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

Report on Schedule of Expenditures of Federal Awards Required by the Uniform Guidance

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, 2016, and the related notes to the financial statements, which collectively comprise the 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 May 13, 2019, 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 the purposes of additional analysis as required by the Uniform Guidance 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.

Cienni + Panichi, Inc.

Cleveland, Ohio
May 13, 2019

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City of East Cleveland, Ohio

Schedule of Expenditures of Federal Awards

For the Year Ended December 31, 2016

<u>Federal Grantor/Pass-Through Grantor/Program or Cluster Title</u>	<u>Federal CFDA Number</u>	<u>Federal Expenditures</u>
U.S. Department of Housing and Urban Development:		
CDBG – Entitlement Grants Cluster: CDBG Entitlement Grants Program: Community Development Block Grants, Entitlement Grants	14.218	\$ 694,472
Passed Through Office of Community Planning and Development Home Investment Partnership Program	14.239	<u>11,655</u>
Total U.S. Department of Housing and Urban Development		706,127
U.S. Department of Justice:		
Passed Through Office of Community Oriented Policing Services: Public Safety Partnership and Community Policing Grants	16.710	112,034
Passed Through Office of Victims of Crime: Crime Victim Assistance (VOCA)	16.575	<u>119,692</u>
Total U.S. Department of Justice		<u>231,726</u>
Total Expenditures of Federal Awards		\$ <u><u>937,853</u></u>

See Notes to the Schedule of Expenditures of Federal Awards

City of East Cleveland, Ohio

Notes to the Schedule of Expenditures of Federal Awards

For the Year Ended December 31, 2016

Note 1: Summary of Significant Accounting Policies

The accompanying schedule of expenditures of federal awards (SEFA) includes the federal grant activity of the City of East Cleveland, Ohio (the "City"), and is presented on the cash basis of accounting. The information in this schedule is presented in accordance with the requirements of Title 2 U.S. *Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

Note 2: Indirect Cost Rate

The City has not elected to use the 10 percent de minimis indirect cost rate to recover indirect costs as allowed under the Uniform Guidance.

City of East Cleveland, Ohio

Schedule of Findings and Questioned Costs

For the Year Ended December 31, 2016

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 the major federal program?	Yes
(d)(1)(iv)	Were there any significant deficiencies in internal control reported for the major federal program?	No
(d)(1)(v)	Type of Major Program Compliance Opinion	Unmodified
(d)(1)(vi)	Are there any reportable findings under 2 CFR Section 200.516(a)?	Yes
(d)(1)(vii)	Major Program	CDBG - Entitlement Grants Cluster, CFDA #14.218
(d)(1)(viii)	Dollar Threshold: Type A/B Programs	Type A: >\$750,000 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, 2016

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

2016-001: Material Weakness in internal control over financial reporting

Audit Adjustments:

Condition:

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

The following audit adjustments were made to the financial statements:

- Adjusted contract payable for an unrecorded liability.
- Adjusted intergovernmental receivable and related deferred inflow for gas excise tax for current year amount not properly recorded.
- Adjusted EMS accounts receivable and related deferred inflow to confirmation provided by the third-party service organization.
- Adjusted HOME grant receivable and related deferred inflow for current year amount not properly recorded.

Criteria:

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

Cause:

Controls were not in place to ensure the financial statements were properly adjusted for the above accounts. Additionally, controls related to the compilation of the City's contract payable listings were not in place to ensure compliance with the City's cutoff procedures.

Effect:

The lack of controls to ensure the above adjustments were properly included in the financial statements may result in inaccurate financial reporting of the City's financial statements.

Recommendation:

We recommend the City implement controls over its year-end financial reporting process and 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 the above adjustments and ensure the proper controls are in place to mitigate their recurrence. Also, the City will ensure that these items are communicated with third parties assisting with the GAAP conversion.

City of East Cleveland, Ohio

Schedule of Findings and Questioned Costs (continued)

For the Year Ended December 31, 2016

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

2016-002: Material Weakness – Capital Assets

Condition:

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, donated, or sold, but have not been deleted from the list of capital assets.

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 review and reconcile the capital assets to the general ledger and no policy is in place to ensure consistent reporting of land, construction-in-progress, buildings, improvements other than buildings, machinery and equipment, and infrastructure.

Effect:

The lack of controls to ensure assets no longer in use, donated, sold, or fully depreciated were excluded from the capital asset balance may result in misstatements of capital asset and related expenses and gains or losses and inaccurate financial reporting. Furthermore, the City may inconsistently report land, construction-in-progress, buildings, improvements other than buildings, machinery and equipment, and infrastructure due to a lack of a Council-approved policy.

Recommendation:

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

We also recommend that the City's capital asset policy include that its capital assets are to be depreciated in accordance with U.S. GAAP.

City of East Cleveland, Ohio

Schedule of Findings and Questioned Costs (continued)

For the Year Ended December 31, 2016

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

2016-002: Material Weakness – Capital Assets (continued)

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 when a capital asset should be depreciated in accordance with U.S. GAAP and have Council approve this policy.

2016-003: Material Weakness – Maintaining Payroll Forms

Condition:

During our testing of payroll in previous years and certain procedures performed in the current year, 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 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.

City of East Cleveland, Ohio

Schedule of Findings and Questioned Costs (continued)

For the Year Ended December 31, 2016

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

2016-004: Material Weakness – Schedule of Expenditures of Federal Awards (SEFA) Preparation

Condition:

We noted that the Schedule of Expenditures of Federal Awards did not properly report clusters, program names or CFDA numbers.

Criteria:

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

Cause:

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

Effect:

The lack of controls over the accurate reporting of federal award programs on the SEFA can result in errors and irregularities that may go undetected and cause the City to fail to properly report expenditures of federal funds which could lead to improper major program determination and selection.

Recommendation:

We recommend that the SEFA be monitored and updated throughout the year and reviewed and approved by appropriate City personnel to ensure all federal grant programs are properly identified and reported.

Management's Response:

The SEFA will be monitored and updated throughout the year and reviewed and approved by appropriate City personnel to ensure all federal grant expenditures are properly identified and reported.

2016-005: Material Weakness – Municipal Court Bank Reconciliations, Supporting Documentation, and Purchasing Procedures

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, 2016. In addition, for the receipts and expenditures selected for testing, the Court was not able to provide adequate supporting documentation such as receipt copies, case files, purchase orders and related invoices. Also, we noted that the Court is not utilizing purchase orders for its operational expenditures.

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. In addition, adequate supporting documentation should be maintained for all receipts and expenditures of the Municipal Court. Also, the Court should follow similar budgetary or purchasing procedures as the City for all its operational expenditures.

City of East Cleveland, Ohio

Schedule of Findings and Questioned Costs (continued)

For the Year Ended December 31, 2016

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

2016-005: Material Weakness – Municipal Court Bank Reconciliations, Supporting Documentation, and Purchasing Procedures (continued)

Cause:

Controls were not in place to ensure Municipal Court bank reconciliations were being prepared for all bank accounts utilized, supporting documentation was maintained for receipts and expenditures made by the Municipal Court, and proper budgetary or purchasing procedures for operational expenditures in accordance with the City's policy.

Effect:

The lack of controls over Municipal Court bank reconciliations, lack of supporting documentation for Municipal Court receipts and expenditures, and lack of proper budgetary or purchasing procedures for operational expenditures 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 prepare 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. In addition, the Municipal Court should maintain adequate supporting documentation for all receipts and expenditures made by the Municipal Court. Also, the Municipal Court should follow the City's budgetary or purchasing procedures for its operational expenditures.

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, adequate supporting documentation is maintained for the Municipal Court's receipts and expenditures as well as the proper budgetary or purchasing procedures for operational expenditures are implemented.

City of East Cleveland, Ohio

Schedule of Findings and Questioned Costs (continued)

For the Year Ended December 31, 2016

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

2016-006: 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.

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

	Final Estimated Resources Plus Carryover <u>Fund Balance</u>	Final Appropriations Plus Prior Year <u>Encumbrances</u>	<u>Excess</u>
Governmental Funds			
Special Revenue Funds:			
Police Accrued Liability	\$ 131,256	\$ 158,746	\$ (27,490)
Fire Accrued Liability	114,017	136,319	(22,302)
Bond Retirement Fund	97,477	146,216	(48,739)

Management's Response:

Management will compare appropriations to estimated resources plus carryover balances on a monthly basis to ensure estimated resources plus carryover balances are not exceeded or budgetary adjustments are made.

2016-007: Material Noncompliance – Negative Cash Balances

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:

<u>Fund</u>	<u>Amount</u>
General Fund	\$ 1,848,079
Special Revenue Funds:	
COPS Grant	88,069

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.

City of East Cleveland, Ohio

Schedule of Findings and Questioned Costs (continued)

For the Year Ended December 31, 2016

3. Findings for Federal Awards

2016-008 – Material Weakness in internal control over federal awards

CFDA 14.218 – Community Development Block Grant, Entitlement Program (CDBG – Entitlement Grants Cluster)

Condition:

During our control testing performed over the allowable costs compliance requirement, we noted out of a sample of 12 items that there were 7 items 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.

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.

2016-009 – Material Noncompliance

2 CFR section 200.512(a) requires the reporting package and data collection form to be submitted to the Federal Audit Clearinghouse the earlier of 30 calendar days after the reports are received from the auditor or nine months after the end of the audit period. For example, for an audit period ending December 31, 2016, the Nine Month Due Date is September 30, 2016. However, if the auditor's reports were received April 30, 2016, the 30-Day Due Date would be May 30, 2016. (If a Due Date falls on a Saturday, Sunday, or federal holiday, the reporting package is due the next business day.). 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 2 CFR section 200.512(a).

City of East Cleveland, Ohio

Schedule of Findings and Questioned Costs (continued)

For the Year Ended December 31, 2016

3. Findings for Federal Awards (continued)

2016-009 – Material Noncompliance (continued)

Management's Response:

The City is in the process of remedying this finding by September 30, 2019. The City is in the process of getting the delinquent financial statements completed, submitted and audited to enable a timely filing of the 2018 reporting package.

City of East Cleveland, Ohio

Schedule of Prior Audit Findings

December 31, 2016

Finding No.	Finding Summary	Fully Corrected	Explanation
2015-001	<p><i>Material Weakness in internal control over financial reporting</i> We noted the City had several significant audit adjustments made to the financial statements during the 2015 audit. Sound financial reporting is the responsibility of the City Finance Director, Mayor, and City Council and is essential to ensure the information provided to the readers of the financial statements is complete and accurate. The lack of controls over the posting of financial transactions and financial reporting can result in errors and irregularities that may go undetected and decreases the reliability of financial data throughout the year.</p>	No	The City had similar audit adjustments in the current year.
2015-002	<p><i>Material Weakness – Capital Assets</i> The City does not have a Council-approved capital asset policy for reporting its land, construction-in-progress, buildings, machinery and equipment, improvements other than buildings, and infrastructure. We also noted the City has some assets that are no longer in use, donated, or sold, but have not been deleted from the list of capital assets. We also noted that the City did not record depreciation expense and accumulated depreciation on the two salt trucks that were placed in service during 2015.</p>	No	The City had similar findings in the current year, except for, unrecorded depreciation expense and accumulated depreciation on new additions.
2015-003	<p><i>Material Weakness – Maintaining Payroll Forms</i> During our testing of payroll in previous years and certain procedures performed in the current year, 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 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.</p>	No	The City had similar findings in the current year.

City of East Cleveland, Ohio

Schedule of Prior Audit Findings (continued)

December 31, 2016

Finding No.	Finding Summary	Fully Corrected	Explanation
2015-04	<p><i>Material Weakness – Schedule of Expenditures of Federal Awards (SEFA) Preparation</i></p> <p>We noted that the Schedule of Expenditures of Federal Awards did not properly report program names or CFDA numbers.</p>	No	The City had similar findings in the current year.
2015-05	<p><i>Material Weakness – Municipal Court Bank Reconciliations, Supporting Documentation, and Purchasing Procedures</i></p> <p>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, 2015. In addition, for the receipts and expenditures selected for testing, the Court was not able to provide adequate supporting documentation such as receipt copies, case files, purchase orders and related invoices. Also, we noted that the Court is not utilizing purchase orders for its operational expenditures.</p>	No	The City had similar findings in the current year.
2015-06	<p><i>Material Noncompliance – Budgetary Noncompliance</i></p> <p>At December 31, 2015, the City had several funds that had total original and final appropriation in excess of estimated resources plus carryover balances contrary to Ohio Revised Code Section 5705.39.</p> <p>At December 31, 2015, the City had one fund and department with expenditures plus encumbrances in excess of appropriations contrary to Section 5705.41 (B) of the Ohio Revised Code.</p>	No	The City had similar findings in the current year, except that we did not note any funds and departments with expenditures plus encumbrances in excess of appropriations.
2015-007	<p><i>Material Noncompliance – Negative Cash Balances</i></p> <p>At December 31, 2015, the City had several negative cash balances in funds indicating that revenue from other sources were used to pay obligations of these funds contrary to Ohio Revised Code Section 5705.10.</p>	No	The City had similar findings in the current year.

City of East Cleveland, Ohio

Schedule of Prior Audit Findings (continued)

December 31, 2016

Finding No.	Finding Summary	Fully Corrected	Explanation
2015-008	<p><i>Material Weakness in internal control over federal awards</i></p> <p>During our control testing performed over the allowable costs compliance requirement, we noted two instances in which approved payroll authorization forms could not be located and timesheets were not approved. 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.</p>	No	The City had similar findings in the current year.
2015-09	<p><i>Material Noncompliance</i></p> <p>2 CFR section 200.512(a) requires the reporting package and data collection form to be submitted to the Federal Audit Clearinghouse the earlier of 30 calendar days after the reports are received from the auditor or nine months after the end of the audit period. For example, for an audit period ending December 31, 2015, the Nine Month Due Date is September 30, 2016. However, if the auditor's reports were received April 30, 2016, the 30-Day Due Date would be May 30, 2016. (If a Due Date falls on a Saturday, Sunday, or federal holiday, the reporting package is due the next business day.). It was noted that the City did not submit the required documentation within nine months after year-end.</p>	No	The City had similar findings in the current year.



The City of East Cleveland

Brandon L. King, Mayor

"Working To Build a Better Community"

City of East Cleveland, Ohio

Corrective Action Plan (continued)

December 31, 2016

Finding Number	Planned Correction Action	Anticipated Completion Date	Responsible Contact Person
2016-001	The City will complete an assessment of the audit adjustments and ensure the proper controls are in place to mitigate their reoccurrence. Also, the City will ensure that these items are communicated with third parties assisting with the GAAP conversion.	December 31, 2019	Charles Iyahen, Finance Director
2016-002	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 when a capital asset should be depreciated in accordance with U.S. GAAP and have Council approve this policy.	December 31, 2019	Charles Iyahen, Finance Director
2016-003	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, 2019	Charles Iyahen, Finance Director
2016-004	The SEFA will be monitored and updated throughout the year and reviewed and approved by appropriate City personnel to ensure all federal grant expenditures are properly identified and reported.	December 31, 2019	Charles Iyahen, Finance Director
2016-005	The City is taking the necessary steps to ensure Municipal Court bank reconciliations are prepared timely and reviewed and approved by the finance department, adequate support documentation is maintained for the Municipal Court's receipts and expenditures as well as the proper budgetary or purchasing procedures for operational expenditures are implemented.	December 31, 2019	Charles Iyahen, Finance Director
2016-006	Management will compare appropriations to estimated resources plus carryover balances on a monthly basis to ensure estimated resources plus carryover balances are not exceeded or budgetary adjustments are made.	December 31, 2019	Charles Iyahen, Finance Director



The City of East Cleveland

Brandon L. King, Mayor

"Working To Build a Better Community"

City of East Cleveland, Ohio

Corrective Action Plan (continued)

December 31, 2016

Finding Number	Planned Correction Action	Anticipated Completion Date	Responsible Contact Person
2016-007	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, 2019	Charles Iyahen, Finance Director
2016-008	The City is taking the necessary steps to require approved payroll authorization forms and approved documentation of hours worked be maintained.	December 31, 2019	Charles Iyahen, Finance Director
2016-009	The City is in the process of remedying this finding by September 30, 2019. The City is in the process of getting the delinquent financial statements completed, submitted and audited to enable a timely filing of the 2018 reporting package.	September 30, 2019	Charles Iyahen, Finance Director

OHIO AUDITOR OF STATE KEITH FABER



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
JUNE 18, 2019**