

City of East Cleveland, Ohio

Single Audit Reports

December 31, 2014



Dave Yost • Auditor of State

City Council
City of East Cleveland
14340 Euclid Avenue
East Cleveland, OH 44112

We have reviewed the *Independent Auditor's Report* of the City of East Cleveland, Cuyahoga County, prepared by Ciuni & Panichi, Inc., for the audit period January 1, 2014 through December 31, 2014. Based upon this review, we have accepted these reports in lieu of the audit required by Section 117.11, Revised Code. The Auditor of State did not audit the accompanying financial statements and, accordingly, we are unable to express, and do not express an opinion on them.

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

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

Dave Yost
Auditor of State

May 2, 2018

This page intentionally left blank.

City of East Cleveland, Ohio

For the Year Ended December 31, 2014

Table of Contents	Page
Independent Auditor’s Report	1
Management Discussion and Analysis	4
Basic Financial Statements:	
Government-Wide Financial Statements:	
Statement of Net Position	12
Statement of Activities	13
Fund Financial Statements:	
Balance Sheet – Governmental Funds	14
Reconciliation of total Governmental Fund Balances to Net Position of Governmental Activities	15
Statement of Revenues, Expenditures and Changes in Fund Balances of Governmental Funds	16
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances of Governmental Funds to the Statement of Activities	17
Statement of Revenues, Expenditures and Changes in Fund Balance - Budget (Non-GAAP Basis) and Actual	
General Fund	18
Emergency Medical Services Fund	19
Community Development Fund	20
Statement of Fund Net Position – Proprietary Fund	21
Statement of Revenues, Expenses and Changes in Fund Net Position – Proprietary Fund	22
Statement of Cash Flows – Proprietary Fund	23
Statement of Fiduciary Assets and Liabilities – Agency Funds	24
Notes to Basic Financial Statements	25
Independent Auditor’s Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	51

City of East Cleveland, Ohio

For The Year Ended December 31, 2014

Table of Contents	Page
Independent Auditor’s Report on Compliance for Each Major Program; Report on Internal Control over Compliance; and Report on the Schedule of Expenditures of Federal Awards Required by OMB Circular A-133	53
Schedule of Expenditures of Federal Awards	56
Notes to the Schedule of Expenditures of Federal Awards	57
Schedule of Findings and Questioned Costs	58
Schedule of Prior Audit Findings	67
Corrective Action Plan	71

Independent Auditor's Report

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

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the City of East Cleveland, Ohio (the "City"), as of and for the year ended December 31, 2014, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

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

Summary of Opinions

<u>Opinion Unit</u>	<u>Type of Opinion</u>
Governmental Activities	Qualified
General Fund	Unmodified
Emergency Medical Services Fund	Unmodified
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 documentation would affect the long term liabilities balance, net position and expenditures of the Governmental Activities has not been determined.

Qualified Opinion

In our opinion, except for the effects of the matter described in the “Basis for Qualified Opinion on Governmental Activities” paragraph, the financial statements referred to above present fairly, in all material respects, the financial position of the Governmental Activities of the City of East Cleveland, Ohio, as of December 31, 2014, and the changes in financial position thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Unmodified Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of each major fund, and the aggregate remaining fund information of the City of East Cleveland, Ohio, as of December 31, 2014, and the respective changes in financial position and the respective budgetary comparison for the General Fund, the Emergency Medical Services 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 18 to the financial statements, on October 9, 2012 the Auditor of State determined a fiscal emergency exists, and a financial planning and supervision commission has assumed certain management responsibilities for the duration of this emergency in accordance with Section 118.03 of the Ohio Revised Code. The financial statements do not include any adjustments that might result from the outcome of this uncertainty. Our opinion is not modified with respect to this matter.

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

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 4 through 10 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated January 25, 2018 on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control over financial reporting and compliance.

Ciuni + Panichi, Inc.

Cleveland, Ohio
January 25, 2018

City of East Cleveland, Ohio
Management's Discussion and Analysis
For the Year Ended December 31, 2014
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, 2014. 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 2014 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 decreased significantly from 2013 to 2014, due to budget constraints in 2014.
- The City entered into an agreement with The Ohio Public Works Commission which extends the City's loans repayment schedule to 40 years beginning in 2014.

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 2014 and how they affected the operations of the City as a whole.

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

Reporting the City of East Cleveland as a Whole

Statement of Net Position and Statement of Activities

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

City of East Cleveland, Ohio
Management's Discussion and Analysis
For the Year Ended December 31, 2014
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 on page 8. Fund financial reports give a detailed report of the activities within the funds. The City has established many funds. These funds are in existence to provide a multitude of services to the citizens of East Cleveland. Some funds provide for police, fire and emergency medical service protection, streets, water service and sewer service. Some also provide for the purchase of capital assets, while others provide for the payment of principal and interest on debt. Each fund is in some ways an entity unto itself. Each fund has a designated revenue stream and restricted uses for the monies within the fund.

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

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 benefits for employee hospital/medical, prescription and dental plans.

City of East Cleveland, Ohio
Management's Discussion and Analysis
For the Year Ended December 31, 2014
Unaudited

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 2014 compared to 2013.

Table 1
Net Position

	Governmental Activities		
	2014	2013	Change
Assets			
Current and Other Assets	\$11,623,222	\$11,572,643	\$50,579
Capital Assets, Net	17,860,995	17,821,176	39,819
<i>Total Assets</i>	<u>29,484,217</u>	<u>29,393,819</u>	<u>90,398</u>
Liabilities			
Current Liabilities	4,508,127	3,601,843	906,284
Long-Term Liabilities:			
Due Within One Year	184,503	292,727	(108,224)
Due in More than One Year	5,185,882	5,682,273	(496,391)
<i>Total Liabilities</i>	<u>9,878,512</u>	<u>9,576,843</u>	<u>301,669</u>
Deferred Inflows of Resources			
Property Taxes	984,650	1,062,896	(78,246)
Net Position			
Net Investment in Capital Assets	15,140,280	14,940,340	199,940
Restricted for:			
Capital Projects	1,511,750	1,384,011	127,739
Debt Service	0	169,819	(169,819)
Other Purposes	2,451,070	2,351,747	99,323
Unrestricted (Deficit)	<u>(482,045)</u>	<u>(91,837)</u>	<u>(390,208)</u>
<i>Total Net Position</i>	<u>\$18,621,055</u>	<u>\$18,754,080</u>	<u>(\$133,025)</u>

Total net position for governmental activities decreased mainly due to the increase in liabilities, offset by a reduction in expenses as the City endeavors to be more prudent.

The increase in liabilities was mainly due to an increase in the City's current liabilities as the result of additional outstanding bills due to vendors, as well as an increase due to claims payable liabilities, as the City became self-insured in 2014. The decrease in long-term obligations is the result of the City continuing to pay down their debt.

Table 2 shows the changes in net position for the year ended December 31, 2014. Revenue and expense comparisons to the year 2013 are also shown.

City of East Cleveland, Ohio
Management's Discussion and Analysis
For the Year Ended December 31, 2014
Unaudited

Table 2
Changes in Net Position

	Governmental Activities		
	2014	2013	Change
Revenues:			
Program Revenues:			
Charges for Services	\$3,983,752	\$3,880,218	\$103,534
Operating Grants and Contributions	2,245,820	4,286,611	(2,040,791)
<i>Total Program Revenues</i>	<u>6,229,572</u>	<u>8,166,829</u>	<u>(1,937,257)</u>
General Revenues:			
Property Taxes	1,361,306	1,307,688	53,618
Municipal Income Taxes	5,008,084	5,705,017	(696,933)
Hotel Tax	2,392	3,704	(1,312)
Grants and Entitlements	1,900,704	3,058,197	(1,157,493)
Unrestricted Contributions	20,345	0	20,345
Investment Earnings	13	268	(255)
Other	332,623	261,049	71,574
<i>Total General Revenues</i>	<u>8,625,467</u>	<u>10,335,923</u>	<u>(1,710,456)</u>
<i>Total Revenues</i>	<u>14,855,039</u>	<u>18,502,752</u>	<u>(3,647,713)</u>
Program Expenses			
General Government	3,476,521	5,975,038	(2,498,517)
Security of Persons and Property	7,792,875	9,448,744	(1,655,869)
Transportation	1,189,089	1,519,559	(330,470)
Community Development	1,218,463	2,520,689	(1,302,226)
Leisure Time Activities	140,316	215,728	(75,412)
Basic Utility Services	1,110,775	2,394,050	(1,283,275)
Interest and Fiscal Charges	60,025	69,940	(9,915)
<i>Total Program Expenses</i>	<u>14,988,064</u>	<u>22,143,748</u>	<u>(7,155,684)</u>
Change in Net Position	(133,025)	(3,640,996)	3,507,971
<i>Net Position Beginning of Year</i>	<u>18,754,080</u>	<u>22,395,076</u>	<u>(3,640,996)</u>
<i>Net Position End of Year</i>	<u>\$18,621,055</u>	<u>\$18,754,080</u>	<u>(\$133,025)</u>

Governmental Activities

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

The City's income tax was established to be effective July 1, 1968 at a rate of one percent. This rate was effective until June 30, 1976. Beginning July 1, 1976 the rate was increased to 1.5 percent. On September 1, 1982, the rate increased to 2 percent. It is at that level as of December 31, 2014. The City does not allow any credit of the City's income tax rate for taxes paid to other political subdivisions in Ohio. The decrease in revenues is primarily due to decreases in operating grants, income tax and grants and entitlements revenues. The decrease in operating grants is primarily due to a decrease in community development block grant funding in 2014. The decrease in income tax is due to the declining economy and a decrease in population. The decrease in grants and entitlements is the result of less local government funding from the State of Ohio.

The operations of the City's police and fire departments account for the largest expenses of the governmental activities. The City's police department is a full-time 24-hour a day, 365-days a year department, with a full-time chief and 34 patrolmen and five dispatchers. The fire department is staffed by 40 full-time firefighters. The police and fire departments are operated with general fund dollars. The City allocates monies from the

City of East Cleveland, Ohio
Management's Discussion and Analysis
For the Year Ended December 31, 2014
Unaudited

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 decreases in all programs. 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
	2014	2013	2014	2013
General Government	\$3,476,521	\$5,975,038	\$2,435,078	\$4,834,188
Security of Persons and Property	7,792,875	9,448,744	5,199,789	6,837,862
Transportation	1,189,089	1,519,559	621,999	976,152
Community Development	1,218,463	2,520,689	(478,542)	697,884
Leisure Time Activities	140,316	215,728	107,080	169,486
Basic Utility Services	1,110,775	2,394,050	813,063	391,407
Interest and Fiscal Charges	60,025	69,940	60,025	69,940
Total	\$14,988,064	\$22,143,748	\$8,758,492	\$13,976,919

The City's Funds

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

The City's major governmental funds are the general fund and the emergency medical services and community development special revenue funds. The City's main operational fund has a deficit fund balance of \$4,996,682 at December 31, 2014. There were many major factors that resulted in these deficit fund balances. Some of these were a high unemployment rate that resulted in lower municipal tax collections, continued decline in property taxes, and additional outstanding bills due to vendors. The emergency medical services fund had a reduction in fund balance due to more expenditures made from this fund to help alleviate the deficit spending in the general fund. The community development fund had a decrease in fund balance due to a decrease in intergovernmental revenues.

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.

City of East Cleveland, Ohio
Management's Discussion and Analysis
For the Year Ended December 31, 2014
Unaudited

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 \$11,555,504 and \$11,196,154 respectively. Actual revenues of \$11,257,944 were \$61,790 higher than the final projections. The original and the final budgeted expenditures were \$14,533,911 and \$12,919,299, respectively. Actual expenditures were \$162,176 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 (\$3,067,687).

Capital Assets and Debt Administration

Capital Assets

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

	Governmental Activities	
	2014	2013
Land	\$920,260	\$920,260
Buildings and Improvements	962,679	1,014,627
Equipment	190,778	258,090
Vehicles	454,574	463,875
Infrastructure	15,332,704	15,164,324
Totals	\$17,860,995	\$17,821,176

Total capital assets for governmental activities for the City of East Cleveland increased from 2013. The increase was primarily due to additional street improvements, as well as the purchase of additional City vehicles, in 2014. See Note 9 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, 2014 has decreased.

Table 5
Outstanding Debt at December 31

	Governmental Activities	
	2014	2013
Capital Leases	\$64,468	\$81,331
Police and Fire Liability	1,269,381	1,307,670
OPWC Loans	2,855,233	3,048,030
Totals	\$4,189,082	\$4,437,031

City of East Cleveland, Ohio
Management's Discussion and Analysis
For the Year Ended December 31, 2014
Unaudited

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

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

See Note 11 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, 2014. To alleviate the financial shortfall, the City has developed a strategy to stabilize its cash shortfall in the aforementioned funds. See Note 18 for further information.

The City has reduced expenditures in 2014. The City continues to struggle to maintain a revenue base to deliver services to the citizens of East Cleveland. The population of the City continues to decline at an average rate of 323 residents per year since 2000.

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

Contacting the City's Finance Department

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

This Page Intentionally Left Blank.

City of East Cleveland, Ohio

Statement of Net Position

December 31, 2014

	<u>Governmental Activities</u>
Assets	
Equity in Pooled Cash and	
Cash Equivalents	\$569,870
Accounts Receivable	478,230
Intergovernmental Receivable	2,739,150
Prepaid Items	10,973
Municipal Income Taxes Receivable	3,331,207
Property Taxes Receivable	4,493,792
Nondepreciable Capital Assets	920,260
Depreciable Capital Assets, Net	<u>16,940,735</u>
<i>Total Assets</i>	<u>29,484,217</u>
Liabilities	
Accounts Payable	2,076,516
Accrued Wages	294,552
Contracts Payable	95,012
Intergovernmental Payable	677,689
Judgments Payable	935,469
Accrued Interest Payable	6,824
Matured Loans Payable	38,289
Matured Interest Payable	55,309
Claims Payable	328,467
Long-Term Liabilities:	
Due Within One Year	184,503
Due In More Than One Year	<u>5,185,882</u>
<i>Total Liabilities</i>	<u>9,878,512</u>
Deferred Inflows of Resources	
Property Taxes	<u>984,650</u>
Net Position	
Net Investment in Capital Assets	15,140,280
Restricted for:	
Capital Projects	1,511,750
Other Purposes	2,451,070
Unrestricted (Deficit)	<u>(482,045)</u>
<i>Total Net Position</i>	<u><u>\$18,621,055</u></u>

See accompanying notes to the basic financial statements

City of East Cleveland, Ohio
Statement of Activities
For the Year Ended December 31, 2014

	Program Revenues			Net (Expense) Revenue and Changes in Net Position
	Expenses	Charges for Services and Operating Assessments	Operating Grants and Contributions	Governmental Activities
Governmental Activities:				
General Government	\$3,476,521	\$1,041,443	\$0	(\$2,435,078)
Security of Persons and Property	7,792,875	2,493,982	99,104	(5,199,789)
Transportation	1,189,089	160,761	406,329	(621,999)
Community Development	1,218,463	19,634	1,677,371	478,542
Leisure Time Activities	140,316	33,236	0	(107,080)
Basic Utility Services	1,110,775	234,696	63,016	(813,063)
Interest and Fiscal Charges	60,025	0	0	(60,025)
<i>Total</i>	\$14,988,064	\$3,983,752	\$2,245,820	(8,758,492)
General Revenues				
Property Taxes Levied for:				
General Purposes				1,086,168
Capital Projects				198,933
Police Pension Liability				31,889
Fire Pension Liability				44,316
Municipal Income Taxes Levied for				
General Purposes				5,008,084
Hotel Tax				2,392
Grants and Entitlements not Restricted to Specific Programs				1,900,704
Unrestricted Contributions				20,345
Interest				13
Other				332,623
<i>Total General Revenues</i>				8,625,467
Change in Net Position				(133,025)
<i>Net Position Beginning of Year</i>				18,754,080
<i>Net Position End of Year</i>				\$18,621,055

See accompanying notes to the basic financial statements

City of East Cleveland, Ohio

Balance Sheet

Governmental Funds

December 31, 2014

	General	Emergency Medical Services	Community Development	Other Governmental Funds	Total Governmental Funds
Assets					
Equity in Pooled Cash and					
Cash Equivalents	\$0	\$0	\$0	\$569,870	\$569,870
Accounts Receivable	34,446	443,784	0	0	478,230
Interfund Receivable	0	646,211	0	2,907,978	3,554,189
Intergovernmental Receivable	1,021,658	0	1,494,578	222,914	2,739,150
Prepaid Items	10,973	0	0	0	10,973
Municipal Income Taxes Receivable	3,331,207	0	0	0	3,331,207
Property Taxes Receivable	3,573,799	0	0	919,993	4,493,792
<i>Total Assets</i>	<u>\$7,972,083</u>	<u>\$1,089,995</u>	<u>\$1,494,578</u>	<u>\$4,620,755</u>	<u>\$15,177,411</u>
Liabilities					
Accounts Payable	\$1,667,449	\$99,731	\$63,375	\$216,245	2,046,800
Accrued Wages	245,236	28,056	5,644	15,616	294,552
Contracts Payable	0	0	95,012	0	95,012
Intergovernmental Payable	620,080	4,365	15,060	38,184	677,689
Judgments Payable	935,469	0	0	0	935,469
Matured Loans Payable	0	0	0	38,289	38,289
Matured Interest Payable	0	0	0	55,309	55,309
Interfund Payable	2,685,996	10,957	136,453	1,078,966	3,912,372
<i>Total Liabilities</i>	<u>6,154,230</u>	<u>143,109</u>	<u>315,544</u>	<u>1,442,609</u>	<u>8,055,492</u>
Deferred Inflows of Resources					
Property Taxes	783,067	0	0	201,583	984,650
Unavailable Revenue	6,031,468	443,784	1,494,578	873,838	8,843,668
<i>Total Deferred Inflows of Resources</i>	<u>6,814,535</u>	<u>443,784</u>	<u>1,494,578</u>	<u>1,075,421</u>	<u>9,828,318</u>
Fund Balances					
Nonspendable	10,973	0	0	0	10,973
Restricted	0	0	0	3,189,222	3,189,222
Committed	0	503,102	0	1,011	504,113
Unassigned (Deficit)	(5,007,655)	0	(315,544)	(1,087,508)	(6,410,707)
<i>Total Fund Balances (Deficit)</i>	<u>(4,996,682)</u>	<u>503,102</u>	<u>(315,544)</u>	<u>2,102,725</u>	<u>(2,706,399)</u>
<i>Total Liabilities, Deferred Inflows of Resources and Fund Balances</i>	<u>\$7,972,083</u>	<u>\$1,089,995</u>	<u>\$1,494,578</u>	<u>\$4,620,755</u>	<u>\$15,177,411</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, 2014*

Total Governmental Funds Balances (\$2,706,399)

*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. 17,860,995

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	3,509,142
Municipal Income Taxes	2,541,722
Intergovernmental	1,650,006
Charges for Services	1,137,727
Miscellaneous	5,071

Total 8,843,668

In the statement of net position, interest is accrued on outstanding
 liabilities, whereas in governmental funds, an interest
 expenditure is reported when due. (6,824)

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

OPWC Loans	(2,855,233)
Capital Leases	(64,468)
Police and Fire Pension Liability	(1,269,381)
Compensated Absences	(1,181,303)

Total (5,370,385)

Net Position of Governmental Activities \$18,621,055

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, 2014

	General	Emergency Medical Services	Community Development	Other Governmental Funds	Total Governmental Funds
Revenues					
Property Taxes	\$918,110	\$0	\$0	\$231,875	\$1,149,985
Hotel Tax	2,392	0	0	0	2,392
Municipal Income Taxes	5,403,537	0	0	0	5,403,537
Special Assessments	222	0	0	0	222
Intergovernmental	1,834,190	0	977,364	1,067,626	3,879,180
Fees, Licenses and Permits	322,724	0	0	0	322,724
Fines and Forfeitures	1,032,270	0	0	312,281	1,344,551
Rentals	353,341	0	0	0	353,341
Charges for Services	1,439,094	691,952	0	4,431	2,135,477
Contributions and Donations	20,345	0	0	0	20,345
Interest	12	0	0	1	13
Other	319,507	0	2,934	7,100	329,541
<i>Total Revenues</i>	<u>11,645,744</u>	<u>691,952</u>	<u>980,298</u>	<u>1,623,314</u>	<u>14,941,308</u>
Expenditures					
Current:					
General Government	3,181,661	0	0	7,668	3,189,329
Security of Persons and Property	6,703,339	770,352	0	610,592	8,084,283
Transportation	665,625	0	0	277,727	943,352
Community Development	79,723	0	1,120,899	576,392	1,777,014
Leisure Time Activities	135,143	0	0	0	135,143
Basic Utility Services	1,105,625	0	0	0	1,105,625
Capital Outlay	0	0	0	89,778	89,778
Debt Service:					
Principal Retirement	22,816	0	0	225,133	247,949
Interest and Fiscal Charges	92	0	0	60,188	60,280
<i>Total Expenditures</i>	<u>11,894,024</u>	<u>770,352</u>	<u>1,120,899</u>	<u>1,847,478</u>	<u>15,632,753</u>
<i>Net Change in Fund Balances</i>	(248,280)	(78,400)	(140,601)	(224,164)	(691,445)
<i>Fund Balances (Deficit) Beginning of Year</i>	<u>(4,748,402)</u>	<u>581,502</u>	<u>(174,943)</u>	<u>2,326,889</u>	<u>(2,014,954)</u>
<i>Fund Balances (Deficit) End of Year</i>	<u><u>(\$4,996,682)</u></u>	<u><u>\$503,102</u></u>	<u><u>(\$315,544)</u></u>	<u><u>\$2,102,725</u></u>	<u><u>(\$2,706,399)</u></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, 2014*

Net Change in Fund Balances - Total Governmental Funds (\$691,445)

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

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

Capital Outlay	679,205	
Depreciation	(639,386)	
Total		39,819

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

Delinquent Property Taxes	211,321	
Municipal Income Taxes	(395,453)	
Intergovernmental	267,344	
Charges for Services	(21,480)	
Fines and Forfeitures	(151,083)	
Other	3,082	
Total		(86,269)

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. 247,949

In the statement of activities interest is accrued whereas in governmental funds, an interest expenditure is reported when due. 255

Some expenses, such as compensated absences, reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds. 356,666

Change in Net Position of Governmental Activities (\$133,025)

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, 2014

	<u>Budgeted Amounts</u>			Variance with Final Budget Positive (Negative)
	<u>Original</u>	<u>Final</u>	<u>Actual</u>	
Revenues				
Property Taxes	\$986,146	\$986,146	\$918,110	(\$68,036)
Hotel Tax	2,145	2,082	2,143	61
Municipal Income Taxes	5,058,710	4,910,289	5,053,146	142,857
Special Assessments	222	216	222	6
Intergovernmental	1,952,900	1,952,900	1,842,498	(110,402)
Fees, Licenses and Permits	326,529	316,949	326,170	9,221
Fines and Forfeitures	1,002,435	973,023	1,001,332	28,309
Rentals	353,730	343,352	353,341	9,989
Charges for Services	1,552,816	1,400,711	1,441,463	40,752
Interest	12	12	12	0
Other	319,859	310,474	319,507	9,033
<i>Total Revenues</i>	<u>11,555,504</u>	<u>11,196,154</u>	<u>11,257,944</u>	<u>61,790</u>
Expenditures				
Current:				
General Government	4,017,559	3,386,371	3,302,514	83,857
Security of Persons and Property	7,487,387	6,937,771	7,011,956	(74,185)
Transportation	845,924	746,742	715,234	31,508
Community Development	246,034	118,532	126,966	(8,434)
Leisure Time Activities	156,693	124,750	158,639	(33,889)
Basic Utility Services	1,551,306	1,605,133	1,441,814	163,319
Debt Service:				
Principal Retirement	229,008	0	0	0
<i>Total Expenditures</i>	<u>14,533,911</u>	<u>12,919,299</u>	<u>12,757,123</u>	<u>162,176</u>
<i>Excess of Revenues Over (Under) Expenditures</i>	(2,978,407)	(1,723,145)	(1,499,179)	223,966
Other Financing Sources (Uses)				
Transfers Out	(61,199)	0	0	0
<i>Net Change in Fund Balance</i>	(3,039,606)	(1,723,145)	(1,499,179)	223,966
<i>Fund Deficit Beginning of Year</i>	(3,291,656)	(3,291,656)	(3,291,656)	0
Prior Year Encumbrances Appropriated	1,723,148	1,723,148	1,723,148	0
<i>Fund Balance (Deficit) End of Year</i>	<u>(\$4,608,114)</u>	<u>(\$3,291,653)</u>	<u>(\$3,067,687)</u>	<u>\$223,966</u>

See accompanying notes to the basic financial statements

City of East Cleveland, Ohio
Statement of Revenues, Expenditures and Changes
In Fund Balance - Budget (Non-GAAP Basis) and Actual
Emergency Medical Services Fund
For the Year Ended December 31, 2014

	<u>Budgeted Amounts</u>		<u>Actual</u>	Variance with Final Budget Positive (Negative)
	<u>Original</u>	<u>Final</u>		
Revenues				
Charges for Services	\$641,000	\$530,000	\$691,952	\$161,952
Expenditures				
Current:				
Security of Persons and Property	741,517	810,940	737,772	73,168
<i>Net Change in Fund Balance</i>	(100,517)	(280,940)	(45,820)	235,120
<i>Fund Balance Beginning of Year</i>	598,531	598,531	598,531	0
Prior Year Encumbrances Appropriated	58,893	58,893	58,893	0
<i>Fund Balance End of Year</i>	<u>\$556,907</u>	<u>\$376,484</u>	<u>\$611,604</u>	<u>\$235,120</u>

See accompanying notes to the basic financial statements

City of East Cleveland, Ohio
Statement of Revenues, Expenditures and Changes
In Fund Balance - Budget (Non-GAAP Basis) and Actual
Community Development Fund
For the Year Ended December 31, 2014

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues				
Intergovernmental	\$1,510,223	\$1,535,391	\$977,364	(\$558,027)
Other	0	0	2,934	2,934
<i>Total Revenues</i>	1,510,223	1,535,391	980,298	(555,093)
Expenditures				
Current:				
Community Development	1,742,637	1,709,940	1,540,539	169,401
<i>Net Change in Fund Balance</i>	(232,414)	(174,549)	(560,241)	(385,692)
<i>Fund Deficit Beginning of Year</i>	(348,148)	(348,148)	(348,148)	0
Prior Year Encumbrances Appropriated	237,532	237,532	237,532	0
<i>Fund Deficit End of Year</i>	<u>(\$343,030)</u>	<u>(\$285,165)</u>	<u>(\$670,857)</u>	<u>(\$385,692)</u>

See accompanying notes to the basic financial statements

City of East Cleveland, Ohio
Statement of Fund Net Position
Proprietary Fund
December 31, 2014

	<u>Internal Service Fund - Insurance</u>
Assets	
<i>Current Assets:</i>	
Interfund Receivable	<u>\$358,183</u>
Liabilities	
<i>Current Liabilities:</i>	
Accounts Payable	\$29,716
Claims Payable	<u>328,467</u>
<i>Total Liabilities</i>	<u>\$358,183</u>

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, 2014*

	Internal Service Fund - Insurance
Operating Revenues	
Charges for Services	\$1,148,503
Operating Expenses	
Contractual Services	330,034
Claims	818,469
<i>Total Operating Expenses</i>	1,148,503
<i>Change in Net Position</i>	0
<i>Net Position Beginning of Year</i>	0
<i>Net Position End of Year</i>	\$0

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, 2014

	<u>Internal Service Fund - Insurance</u>
Increase (Decrease) in Cash and Cash Equivalents	
Cash Flows from Operating Activities	
Cash Received from Interfund Services Provided	\$790,320
Cash Payments for Goods and Services	(300,318)
Cash Payments for Claims	<u>(490,002)</u>
<i>Net Increase in Cash and Cash Equivalent</i>	0
<i>Cash and Cash Equivalents Beginning of Year</i>	<u>0</u>
<i>Cash and Cash Equivalents End of Year</i>	<u><u>\$0</u></u>

See accompanying notes to the basic financial statements

City of East Cleveland, Ohio
Statement of Fiduciary Assets and Liabilities
Agency Funds
December 31, 2014

Assets	
Equity in Pooled Cash and Cash Equivalents	\$11,738
Cash and Cash Equivalents in Segregated Accounts	<u>265,509</u>
<i>Total Assets</i>	<u><u>\$277,247</u></u>
 Liabilities	
Deposits Held and Due to Others	<u><u>\$277,247</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, 2014

Note 1 – Description of the City and Reporting Entity

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

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

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

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

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

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

On October 9, 2012, the Auditor of State's office declared the City of East Cleveland to be in a state of fiscal emergency in accordance with Section 118.03, Ohio Revised Code. The declaration resulted in the establishment of a Financial Planning and Supervision Commission. The Commission is comprised of the Mayor of the City, Council President, three financial consultants from various corporations and/or organizations within the City and two representatives from the State of Ohio. The City has 120 days after the first meeting of the Commission to approve a financial recovery plan. Once the plan has been adopted, the City's discretion is limited in that all financial activity of the City must be in accordance with the plan. See Note 18 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, 2014

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, 2014

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.

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

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 accounts for contractor bid specification deposits and for the escrow of rent with the municipal court.

Measurement Focus

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

City of East Cleveland, Ohio
Notes to the Basic Financial Statements
For The Year Ended December 31, 2014

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.

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.

City of East Cleveland, Ohio
Notes to the Basic Financial Statements
For The Year Ended December 31, 2014

In addition to liabilities, the statements of financial position report a separate section for deferred inflows of resources. Deferred inflows of resources represent an acquisition of net position that applies to a future period and will not be recognized as an inflow of resources (revenue) until that time. For the City, deferred inflows of resources include property taxes and unavailable revenue. Property taxes represent amounts for which there is an enforceable legal claim as of December 31, 2014, but which were levied to finance year 2015 operations. These amounts have been recorded as a deferred inflow on both the government-wide statement of net position and the governmental fund financial statements. Unavailable revenue is reported only on the governmental funds balance sheet, and represents receivables which will not be collected within the available period. For the City, unavailable revenue includes delinquent property taxes, income taxes clinic settlement, charges for services, intergovernmental grants and other. These amounts are deferred and recognized as an inflow of resources in the period the amounts become available.

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

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

Cash and Cash Equivalents

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

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

Investment procedures are restricted by the provisions of the Ohio Revised Code. Interest revenue credited to the general fund during 2014 amounted to \$12.

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

Prepaid Items

Payments made to vendors for services that will benefit periods beyond December 31, 2014, are recorded as prepaid items using the consumption method by recording a current asset for the prepaid amount and reflecting the expenditure/expense in the year in which the services are consumed.

Capital Assets

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

All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. Donated capital assets are recorded at their fair market values as of the date received. The City was able to estimate the historical cost for the initial reporting of infrastructure by backtrending (i.e., estimating the current replacement cost of the infrastructure to be capitalized and using an appropriate price-level index to deflate the cost of the acquisition year or estimated acquisition year). The

City of East Cleveland, Ohio
Notes to the Basic Financial Statements
For The Year Ended December 31, 2014

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.

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.

City of East Cleveland, Ohio
Notes to the Basic Financial Statements
For The Year Ended December 31, 2014

Fund Balance

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

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

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

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

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

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

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

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

City of East Cleveland, Ohio
Notes to the Basic Financial Statements
For The Year Ended December 31, 2014

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.

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

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

City of East Cleveland, Ohio
Notes to the Basic Financial Statements
For The Year Ended December 31, 2014

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 original appropriations in excess of estimated resources plus carryover balances, contrary to Section 5705.39, Ohio Revised Code.

Fund	Original Estimated Revenues Plus Carryover Balance	Original Appropriations	Excess
<i>Special Revenue Funds:</i>			
Police Accrued Liability	\$50,147	\$52,321	(\$2,174)
NSP-3	214,758	274,378	(59,620)

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
<i>Special Revenue Funds:</i>			
Police Accrued Liability	\$29,610	\$76,843	(\$47,233)
NSP-3	326,792	386,614	(59,822)

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

Fund	Amount
Governmental Funds	
General	\$2,299,174
Special Revenue Funds	
Older Americans	765,891
Courts Community Service	3,190
Domestic Violence	218,934
Community Development	135,535
D.A.R.E	127
NSP-3	54,353
JAG Police	19,679

City of East Cleveland, Ohio
Notes to the Basic Financial Statements
For The Year Ended December 31, 2014

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

Fund/Function	Appropriations	Expenditures Plus Encumbrances	Excess
Special Revenue Funds			
SCMR			
Transportation			
Personal Services	\$253,785	\$293,360	(\$39,575)
City Probation Services			
Security of People and Property			
Other Expenditures	11,248	12,167	(919)
Debt Service Fund			
Bond Retirement			
Debt Service	172,448	296,157	(123,709)

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

Accountability

The following funds had deficit fund balances as of December 31, 2014:

Fund	Amount
General Fund	\$4,996,682
Special Revenue Funds	
Older Americans	773,258
Courts Community	3,190
Community Development	315,544
Domestic Violence	227,742
DARE	127
NSP-3	54,353
JAG Police Grant	19,679
Law Enforcement Trust	9,159

The general fund concluded 2014 with a deficit fund balance of \$4,996,682. 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 below:

City of East Cleveland, Ohio
Notes to the Basic Financial Statements
For The Year Ended December 31, 2014

Fund Balances	General	Emergency Medical Services	Community Development	Other Governmental Funds	Total
<u>Nonspendable:</u>					
Prepays	\$10,973	\$0	\$0	\$0	\$10,973
<u>Restricted for:</u>					
Street Improvements	0	0	0	421,522	421,522
Police Programs	0	0	0	166,081	166,081
Fire Programs	0	0	0	171,144	171,144
Cleveland Water	0	0	0	240,227	240,227
Noise Abatement	0	0	0	181,236	181,236
Court Programs	0	0	0	991,736	991,736
Community Development Programs	0	0	0	36,439	36,439
Capital Improvements	0	0	0	391,489	391,489
Transfer Station Improvements	0	0	0	548,842	548,842
Debt Service Payments	0	0	0	4,450	4,450
Other Purposes	0	0	0	36,056	36,056
Total Restricted	0	0	0	3,189,222	3,189,222
<u>Committed to:</u>					
Ambulance Services	0	503,102	0	0	503,102
Wall of Fame Costs	0	0	0	1,011	1,011
Total Committed	0	503,102	0	1,011	504,113
Unassigned (Deficit)	(5,007,655)	0	(315,544)	(1,087,508)	(6,410,707)
Total Fund Balances (Deficit)	(\$4,996,682)	\$503,102	(\$315,544)	\$2,102,725	(\$2,706,399)

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. Budgetary revenues and expenditures of the water, water improvements, sewer and sewer improvements funds are classified to general fund for GAAP Reporting.

City of East Cleveland, Ohio
Notes to the Basic Financial Statements
For The Year Ended December 31, 2014

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

	Net Change in Fund Balance		
	General	Emergency Medical Services	Community Development
GAAP Basis	(\$248,280)	(\$78,400)	(\$140,601)
Net Adjustment for Revenue Accruals	(382,380)	0	0
Net Adjustment for Expenditures Accruals	540,312	67,187	115,682
Perspective Differences	(5,420)	0	0
Encumbrances	(1,403,411)	(34,607)	(535,322)
Budget Basis	<u>(\$1,499,179)</u>	<u>(\$45,820)</u>	<u>(\$560,241)</u>

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, Government National Mortgage Association, and Student Loan Marketing Association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;
3. No-load money market mutual funds consisting exclusively of obligations described in division (1) or (2) and repurchase agreements secured by such obligations provided that investments in securities described in this division are made only through eligible institutions;

City of East Cleveland, Ohio
Notes to the Basic Financial Statements
For The Year Ended December 31, 2014

4. Time certificates of deposit or savings or deposit accounts including, but not limited to, passbook accounts;
5. Bonds and other obligations of the State of Ohio;
6. The State Treasurer's investment pool (STAROhio);
7. Certain banker's acceptances and commercial paper notes for a period not to exceed one hundred eighty days in an amount not to exceed 25 percent of the interim monies available for investment at any one time if training requirements have been met; and
8. Written repurchase agreements in the securities described in (1) or (2) provided the market value of the securities subject to the repurchase agreement must exceed the principal value of the agreement by at least two percent and be marked to market daily, and the term of the agreement must not exceed thirty days.

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

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

Deposits

Custodial Credit Risk Custodial credit risk for deposits is the risk that in the event of bank failure, the City will not be able to recover deposits or collateral securities that are in possession of an outside party. At year end, \$106,846 of the City's bank balance of \$446,820 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, 2014, 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.

City of East Cleveland, Ohio
Notes to the Basic Financial Statements
For The Year Ended December 31, 2014

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 2014 for real and public utility property taxes represents collections of 2013 taxes.

2014 real property taxes are levied after October 1, 2014 on the assessed value as of January 1, 2014, the lien date. Assessed values are established by state law at 35 percent of appraised market value. 2014 real property taxes are collected in and intended to finance 2015.

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

Public utility tangible personal property currently is assessed at varying percentages of true value; public utility real property is assessed at 35 percent of true value. 2014 public utility property taxes which became a lien December 31, 2013, are levied after October 1, 2014, and are collected in 2015 with real property taxes.

The full tax rate for all City operations for the year ended December 31, 2014, was \$12.70 per \$1,000 of assessed value. The assessed values of real and tangible personal property upon which 2014 property tax receipts were based are as follows:

Real Estate	
Residential/Agriculture	\$89,402,260
Commercial Industrial/Public Utility	48,174,670
Tangible Personal Property	
Public Utility	<u>10,561,760</u>
Total Valuation	<u><u>\$148,138,690</u></u>

The County Fiscal Officer collects property taxes on behalf of all taxing districts in the County, including the City of East Cleveland, and periodically remits to the City its portion of the taxes collected. Property taxes receivable represents real property taxes, public utility taxes and outstanding delinquencies which are measurable as of December 31, 2014 and for which there is an enforceable legal claim. In governmental funds, the portion of the receivable not levied to finance 2014 operations is offset to deferred inflows of resources – property taxes. On an accrual basis, collectible delinquent property taxes have been recorded as a receivable and revenue, while on a modified accrual basis the revenue has been reported as deferred inflows of resources – unavailable revenue.

Income Taxes

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

City of East Cleveland, Ohio
Notes to the Basic Financial Statements
For The Year Ended December 31, 2014

Intergovernmental Receivables

A summary of intergovernmental receivables follows:

Intergovernmental Receivables	Amount
Governmental Activities	
CDBG/Home Program Grants	\$1,494,578
Local Government	921,652
Homestead and Rollback	119,373
Gasoline Centers per Gallon	94,892
Gasoline Tax	47,848
Permissive Tax	30,500
Motor Vehicle Tax	25,236
Cuyahoga County	5,071
<i>Grand Total</i>	\$2,739,150

Note 8 – Leases

Capital Leases

The City has capital leases for three Toshiba copiers, two leases with Metrolease for copiers, a lease for 4 police vehicles and three additional leases for copiers. Capital lease payments are reflected as debt service expenditures in various funds on the basic financial statements. The governmental equipment has been capitalized in the amount of \$526,970, the present value of the minimum lease payments at the inception of the leases.

Governmental Activities:	
Assets	
Vehicles	\$461,185
Equipment	65,785
<i>Total Capital Assets, Being Depreciated:</i>	526,970
Accumulated Depreciation	
Vehicles	406,656
Equipment	65,785
<i>Total Accumulated Depreciation</i>	472,441
<i>Governmental Activities Capital Assets, Net</i>	\$54,529

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, 2014.

Year	Amount
2015	\$19,242
2016	19,307
2017	19,240
2018	15,474
	73,263
Less: Amount representing interest	(8,795)
Present Value of minimum lease payments	\$64,468

City of East Cleveland, Ohio
Notes to the Basic Financial Statements
For The Year Ended December 31, 2014

Operating Leases

The City of has entered into two operating leases. The first one is with City Management Group, Limited, for the purpose of leasing 3,300 square feet of a building in the City for storage facilities. This is a cancelable lease that is renewed annually. For 2014, the City paid rental costs of \$2,400. The City must provide the lessor written notice at least 90 days prior to termination of the lease. The second one is with Brandon King/King Management Group (KMG), Limited, for the purpose of leasing 1,500 square feet of a building in the City to house the Domestic Violence Department. This is a cancelable lease that is renewed annually. The City pays \$2,795 per quarter. For 2014, the City paid rental costs of \$11,181. The City must provide the lessor written notice at least 90 days prior to termination of the lease.

Note 9 - Capital Assets

Capital asset activity for the year ended December 31, 2014, was as follows:

	Balance 12/31/2013	Additions	Deductions	Balance 12/31/2014
Governmental Activities				
<i>Capital Assets not being Depreciated:</i>				
Land	\$920,260	\$0	\$0	\$920,260
<i>Capital Assets being Depreciated:</i>				
Buildings and Improvements	4,453,107	711	0	4,453,818
Equipment	3,461,224	19,813	0	3,481,037
Vehicles	4,305,479	104,046	0	4,409,525
Infrastructure	22,990,961	554,635	0	23,545,596
<i>Total Capital Assets being Depreciated</i>	<u>35,210,771</u>	<u>679,205</u>	<u>0</u>	<u>35,889,976</u>
<i>Less Accumulated Depreciation:</i>				
Buildings and Improvements	(3,438,480)	(52,659)	0	(3,491,139)
Equipment	(3,203,134)	(87,125)	0	(3,290,259)
Vehicles	(3,841,604)	(113,347)	0	(3,954,951)
Infrastructure	(7,826,637)	(386,255)	0	(8,212,892)
<i>Total Accumulated Depreciation</i>	<u>(18,309,855)</u>	<u>(639,386)</u>	<u>0</u>	<u>(18,949,241)</u>
Total Capital Assets being Depreciated, Net	16,900,916	39,819	0	16,940,735
Governmental Activities Capital Assets, Net	<u>\$17,821,176</u>	<u>\$39,819</u>	<u>\$0</u>	<u>\$17,860,995</u>

Depreciation expense was charged to governmental functions as follows:

General Government	\$280,693
Security of Persons and Property	103,039
Leisure Time Activities	3,534
Basic Utility Services	110
Community Environment	3,518
Transportation	248,492
Total Depreciation Expense	<u><u>\$639,386</u></u>

City of East Cleveland, Ohio
Notes to the Basic Financial Statements
For The Year Ended December 31, 2014

Note 10 – Employee Benefits

Compensated Absences

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

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 11 – Long-Term Obligations

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

Debt Issue	Original Issue	Year of Maturity
Governmental Activities		
OPWC Loans:		
1994 Water Main Project Phase I	\$393,740	2014
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
Notes to the Basic Financial Statements
For The Year Ended December 31, 2014

A schedule of changes in long-term obligations of the City during 2014 follows:

	Outstanding 12/31/2013	Additions	(Reductions)	Outstanding 12/31/2014	Due in One Year
Governmental Activities					
OPWC Loans:					
Water Main Project Phase I	\$9,845	\$0	(\$9,845)	\$0	\$0
Water Main Project Phase II	69,130	0	(31,208)	37,922	1,976
Brunswick Road Water Main Improvement Project	6,950	0	(686)	6,264	212
Forest Hills Water Main Project	8,270	0	(765)	7,505	254
Euclid Avenue Rehabilitation	2,066,012	0	(106,990)	1,959,022	66,408
Windemere/ Idlewood/ Knowles Road	733,493	0	(36,268)	697,225	23,636
Belmore Road Waterline Repair Project	86,712	0	(3,953)	82,759	2,806
Coit Avenue Sanitary Sewer Replacement	67,618	0	(3,082)	64,536	2,188
Total OPWC Loans	3,048,030	0	(192,797)	2,855,233	97,480
Capital Leases	81,331	0	(16,863)	64,468	15,397
Police and Fire Pension Liability	1,307,670	0	(38,289)	1,269,381	39,937
Compensated Absences	1,537,969	131,368	(488,034)	1,181,303	31,689
Total Governmental Activities	<u>\$5,975,000</u>	<u>\$131,368</u>	<u>(\$735,983)</u>	<u>\$5,370,385</u>	<u>\$184,503</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 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.

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 \$15,554,562 at December 31, 2014. Principal and interest requirements to retire long-term obligations outstanding at December 31, 2014, are as follows:

	Governmental Activities		
	Police and Fire Liability		OPWC Loans
	Principal	Interest	Principal
2015	\$39,937	\$53,660	\$97,480
2016	41,654	51,941	97,477
2017	43,449	50,148	97,477
2018	45,319	48,277	97,477
2019	47,270	46,326	97,477
2020-2024	268,688	199,294	487,386
2025-2029	331,732	136,250	487,386
2030-2034	409,575	58,407	485,801
2035-2039	41,757	890	477,510
2040-2044	0	0	429,762
Total	<u>\$1,269,381</u>	<u>\$645,193</u>	<u>\$2,855,233</u>

City of East Cleveland, Ohio
Notes to the Basic Financial Statements
For The Year Ended December 31, 2014

Note 12 – Defined Benefit Pension Plans

Ohio Public Employees Retirement System

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

OPERS provides retirement, disability, survivor and death benefits, and annual cost of living adjustments to members of the traditional and combined plans. Members of the member-directed plan do not qualify for ancillary benefits. Authority to establish and amend benefits is provided by Chapter 145 of the Ohio Revised Code. OPERS issues a stand-alone financial report that may be obtained by visiting <https://www.opers.org/investments/cafr.shtml>, by writing to the Ohio Public Employees Retirement System, 277 East Town Street, Columbus, Ohio 43215-4642, or by calling (614) 222-5601 or 800-222-7377.

Funding Policy - The Ohio Revised Code provides statutory authority for member and employer contributions and currently limits the employer contribution to a rate not to exceed 14 percent of covered payroll for state and local employer units. Member contribution rates, as set forth in the Ohio Revised Code, are not to exceed 10 percent of covered payroll. For the year ended December 31, 2014, members in state and local classifications contributed 10 percent of covered payroll. For 2014, member and employer contribution rates were consistent across all three plans.

The City's 2014 contribution rate was 14 percent. The portion of the City's contribution used to fund pension benefits is net of postemployment health care benefits. The portion of the City's contribution allocated to health care for members in both the traditional and combined plans was 2 percent for 2014. Effective January 1, 2015, the portion of the employer contribution allocated to health care remained at 2 percent. Employer contribution rates are actuarially determined.

The City's required contributions for pension obligations to the Traditional Pension and Combined Plans for the years ended December 31, 2014, 2013, and 2012 were \$370,213, \$361,076, and \$407,961, respectively. For 2014, 96.36 percent has been contributed with the balance being reported as an intergovernmental payable. The full amount has been contributed for 2013 and 2012. Contributions to the Member-Directed Plan for 2014 were \$968 made by the City and \$691 made by the plan members.

Ohio Police and Fire Pension Fund

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

City of East Cleveland, Ohio
Notes to the Basic Financial Statements
For The Year Ended December 31, 2014

Funding Policy – Employer and employee contribution rates are set by the Ohio Revised Code. From January 1, 2014, thru July 1, 2014, plan members were required to contribute 10.75 percent of their annual covered salary. From July 2, 2014, thru December 31, 2014, plan members were required to contribute 11.5 percent of their annual covered salary. Throughout 2014, employers were required to contribute 19.5 percent for police officers and 24 percent for firefighters.

The OP&F Pension Fund is authorized by the Ohio Revised Code to allocate a portion of the employer contributions to retiree health care benefits. For 2014, the portion of employer contributions used to fund pension benefits was 19 percent of covered payroll for the police officers and 23.5 percent of covered payroll for firefighters. The City’s contributions to OP&F for police and firefighters pensions were \$366,767 and \$550,560 for the year ended December 31, 2014, \$346,215 and \$457,899 for the year ended December 31, 2013, and \$317,618 and \$472,885 for the year ended December 31, 2012, respectively. For 2014, 94.86 percent for police and 96.45 percent for firefighters has been contributed with the balance for both police and firefighters being reported as an intergovernmental payable. The full amount has been contributed for 2013 and 2012.

In addition to current contributions, the City pays installments on the accrued liability incurred when the State of Ohio established the statewide pension system for police and fire fighters in 1967. As of December 31, 2014, the liability of the City was \$1,269,381 payable in semi-annual payments through the year 2035. This is an accounting liability of the City which will not vary. The liability is reported as “long-term liabilities” in the governmental activities column on the statement of net position.

Note 13 – Postemployment Benefits

Ohio Public Employees Retirement System

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

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

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

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

City of East Cleveland, Ohio
Notes to the Basic Financial Statements
For The Year Ended December 31, 2014

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

Employer contribution rates are expressed as a percentage of the earnable salary of active members. In 2014, State and local government employers contributed 14 percent of earnable salary. This is the maximum employer contribution rate permitted by the Ohio Revised Code.

Each year, the OPERS Board of Trustees determines the portion of the employer contribution rate that will be set aside for funding of post-employment health care benefits. For 2014, the portion of employer contributions allocated to health care for members in the Traditional Pension Plan and the Combined Plan was 2 percent. Effective January 1, 2015, the portion of employer contributions allocated to health care remained at 2 percent for both plans, as recommended by OPERS actuary.

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

The City’s contributions allocated to fund post-employment health care benefits for the years ended December 31, 2014, 2013, and 2012 were \$61,702, \$144,431, and \$163,184, respectively. For 2014, 96.36 percent has been contributed with the balance being reported as an intergovernmental payable. The full amount has been contributed for 2013 and 2012.

Changes to the health care plan were adopted by the OPERS Board of Trustees on September 19, 2012, with a transition plan commencing January 1, 2014. With the passage of pension legislation under SB 343 and the approval health care changes, OPERS expects to consistently allocate 4 percent of the employer contributions toward the health care fund after the end of the transition period.

Ohio Police and Fire Pension Fund

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

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

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

OP&F issues a publicly available financial report that includes financial information and required supplementary information for the plan. That report may be obtained by 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.

City of East Cleveland, Ohio
Notes to the Basic Financial Statements
For The Year Ended December 31, 2014

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

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

The Board of Trustees is authorized to allocate a portion of the total employer contributions made into the pension plan to Section 115 trust and the Section 401(h) account as the employer contribution for retiree health care benefits. For 2014, the employer contribution allocated to the health care plan was .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 Section 115 and 401(h).

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

The City's contributions to OP&F which were allocated to fund post-employment health care benefits for police and firefighters were \$9,652 and \$11,714 for the year ended December 31, 2014, \$183,290 and \$179,178 for the year ended December 31, 2013, and \$168,151 and \$185,042 for the year ended December 31, 2012, respectively. For 2014, 94.86 percent for police and 96.45 percent for firefighters has been contributed with the balance for both police and firefighters being reported as an intergovernmental payable. The full amount has been contributed for 2013 and 2012.

Note 14 – 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, 2014.

Litigation

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

City of East Cleveland, Ohio
Notes to the Basic Financial Statements
For The Year Ended December 31, 2014

The following lists the cases for which the City has recorded a liability as of December 31, 2014 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, 2014 financial statements.

Fitzgerald v. City of East Cleveland, et al. Makeena Fitzgerald brought a lawsuit against the City alleging false arrest and imprisonment. The jury found for the plaintiff and against the City of East Cleveland in the amount of \$100,000 as to malicious prosecution; the jury found for the plaintiff and against the City in the amount of \$100,000 as to intentional infliction of emotional distress. The City arrived at a settlement with the plaintiff in 2015 for \$170,000 to be paid over 6 years with \$25,000 to be paid annually. As of December 31, 2014, \$170,000 has been accrued as a 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, 2014, the City has accrued \$638,093 as a judgments payable on the financial statements.

The remaining judgments payable of \$53,933 is made up of three cases, Traffitech v. City of East Cleveland, Pittman Alexander v. City of East Cleveland and Davie D. Holliday v. City of East Cleveland, et al. Traffitech alleged the City owed \$12,791 based upon a contract dispute. Pittman Alexander alleged the City owed \$27,142 for unpaid attorney's fees. Davie D. Holliday brought a lawsuit against the City for a collision between a City snow plow and the plaintiff's vehicle.

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

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

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

Wheatt, et al. v. City of East Cleveland, et al. This case involved three juveniles who were convicted as adults with aggravated murder in 1995. In 2016, after serving almost twenty years, a County Judge dismissed their case without prejudice. Upon their release from prison, they filed a wrongful

City of East Cleveland, Ohio
Notes to the Basic Financial Statements
For The Year Ended December 31, 2014

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.

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 15 – Interfund Balances

Interfund balances at December 31, 2014 consisted of the following:

Interfund Payable	Interfund Receivable			Total
	Emergency Medical Services	Other Governmental Funds	Internal Service Fund	
Major Funds:				
General Fund	\$646,211	\$1,703,361	\$336,424	\$2,685,996
Emergency Medical Services	0	0	10,957	10,957
Community Development	0	135,535	918	136,453
Other Governmental Funds	0	1,069,082	9,884	1,078,966
Total Governmental Funds	<u>\$646,211</u>	<u>\$2,907,978</u>	<u>\$358,183</u>	<u>\$3,912,372</u>

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.

Note 16 – 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 2014, the City contracted with Scottsdale Indemnity Company for blanket building and business personal property general liability insurance with \$20,561,524 coverage.

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

The City is self-insured for vehicle liability coverage. The City accounts for vehicle claims in the general fund. There are two outstanding claims at December 31, 2014; however, neither was settled by year-end, so there is no claims liability reported for 2014.

City of East Cleveland, Ohio
Notes to the Basic Financial Statements
For The Year Ended December 31, 2014

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 \$328,467 as estimated by the third party administrator and reported in the hospitalization internal service fund at December 31, 2014, 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 2014 were as follows:

	Balance at Beginning of Year	Current Year Claims	Claim Payments	Balance at End of Year
2014	\$0	\$818,469	\$490,002	\$328,467

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

Note 17 – 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	\$1,403,411
Emergency Medical Services	34,607
Community Development	535,322
Other Governmental Funds	529,204
Total Governmental Funds	\$2,502,544

Note 18 – 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.

City of East Cleveland, Ohio
Notes to the Basic Financial Statements
For The Year Ended December 31, 2014

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 19 – Related Party Transaction

The City leases 1,500 square feet of a building owned by the King Management Group to house the Domestic Violence department. King Management Group is owned by Brandon King, a City Councilman. During 2014, the City paid rental costs of \$11,181.

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

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

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the City of East Cleveland, Ohio (the “City”), as of and for the year ended December 31, 2014, and the related notes to the financial statements, which collectively comprise the City’s basic financial statements and have issued our report thereon dated January 25, 2018, 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 18, on October 9, 2012, the Auditor of State declared the City to be in a state of fiscal emergency.

Internal Control over Financial Reporting

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

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

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the City’s financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiencies described in the accompanying schedule of findings and questioned costs to be material weaknesses: items 2014-001 through 2014-005.

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying schedule of findings and questioned costs as items 2014-006 through 2014-007.

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.

Ciuni + Panichi, Inc.

Cleveland, Ohio
January 25, 2018

Where Relationships Count.

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

Honorable Mayor and
Members of City Council
City of East Cleveland

Report on Compliance for Each Major Federal Program

We have audited the City of East Cleveland, Ohio’s (the “City”) compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the City’s major federal program for the year ended December 31, 2014. 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 each of the City’s major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the City’s compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for 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 the major federal program for the year ended December 31, 2014.

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

Other Matters

The results of our auditing procedures disclosed an instance of noncompliance, which is required to be reported in accordance with OMB Circular A-133 and which is described in the accompanying schedule of findings and questioned costs as item 2014-009. 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 on 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 OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over compliance.

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

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance. We consider the deficiencies in internal control over compliance described in the accompanying schedule of findings and questioned costs as item 2014-008 to be a material weakness.

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

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

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

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

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the City, as of and for the year ended December 31, 2014, and the related notes to the financial statements, which collectively comprise City's basic financial statements wherein we noted the City was placed in fiscal emergency effective October 9, 2012. We issued our report thereon dated January 25, 2018, which contained a qualified opinion over the governmental activities and unmodified opinions on the other opinion units. Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of federal awards is fairly stated in all material respects in relation to the basic financial statements as a whole

Ciuni + Panichi, Inc.

Cleveland, Ohio
January 25, 2018

City of East Cleveland

Schedule of Expenditures of Federal Awards

For the Year Ended December 31, 2014

<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:		
Direct Programs:		
CDBG Entitlement Grants Cluster		
Community Development Block Grant, Entitlement Program	14.218	\$ 889,446
Community Development Block Grant, Entitlement Program – passed-through to subrecipients	14.218	<u>76,037</u>
Total CDBG Entitlement Grants Cluster		965,483
Home Investment Partnership Program	14.239	39,734
Passed Through Office of Community Planning and Development:		
CDBG State Administered CDBG Cluster:		
Community Development Block Grant/State’s Program and Non-Entitlement Grants in Hawaii	14.228	<u>400</u>
Total U.S. Department of Housing and Urban Development		<u>1,005,617</u>
U.S. Department of Justice:		
Passed Through Office of Community Oriented Policing Services:		
Public Safety Partnership and Community Policing Grants	16.710	215,745
Passed Through Office of Victims of Crime:		
Crime Victim Assistance Grant (VOCA)	16.575	78,154
Crime Victim Assistance Grant (SVAA)	16.575	<u>16,343</u>
Total passed through Office of Victims of Crime		<u>94,497</u>
Total U.S. Department of Justice		310,242
U.S. Department of Health and Human Services:		
Passed Through Western Reserve Area on Aging:		
Aging Cluster:		
Special Programs for the Aging--Title III, Part B--Grants for Supportive Services and Senior Centers	93.044	<u>135,135</u>
Total U.S. Department of Health and Human Services		<u>135,135</u>
Total Expenditures of Federal Awards		\$ <u>1,450,994</u>

The notes to the Schedule of Expenditures of Federal Awards are an integral part of this schedule.

City of East Cleveland

Notes to the Schedule of Expenditures of Federal Awards

For the Year Ended December 31, 2014

Note 1: Summary of Significant Accounting Policies

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

Note 2: Subrecipients

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

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

During 2014, the City provided \$76,037 of the Community Development Block Grant, Entitlement Program grant to subrecipients.

City of East Cleveland, Ohio

Schedule of Findings and Questioned Costs

For the Year Ended December 31, 2014

1. Summary of Auditor's Results

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

City of East Cleveland, Ohio

Schedule of Findings and Questioned Costs (continued)

For the Year Ended December 31, 2014

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

2014-001: Material Weakness in internal control over financial reporting

Condition:

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

Criteria:

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

Cause:

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

Effect:

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

Recommendation:

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

Management's Response:

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

2013-002: Material Weakness - Capital Assets

Condition:

During our procedures performed over the City's capital assets it was noted that the cost and accumulated depreciation totals in the client's system do not tie to the amounts reported in the City's 2014 financial statements. We also noted the need to materially adjust the capital asset additions reported in 2014 as, in these instances, the City was capitalizing repairs and maintenance that should have been expensed during the year.

City of East Cleveland, Ohio

Schedule of Findings and Questioned Costs (continued)

For the Year Ended December 31, 2014

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

2014-002: Material Weakness – Capital Assets (continued)

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

Criteria:

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

Cause:

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

Effect:

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

Recommendation:

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

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

Management's Response:

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

City of East Cleveland

Schedule of Findings and Questioned Costs (continued)

For the Year Ended December 31, 2014

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

2014-003: Material Weakness – Maintaining Payroll Forms

Condition:

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

Criteria:

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

Cause:

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

Effect:

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

Recommendation:

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

Management's Response:

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

2014-004: Material Weakness – Schedule of Expenditures of Federal Awards (SEFA) Preparation

Condition:

We noted that the SEFA did not identify clusters, did not properly report program names or CFDA numbers and did not identify the amount passed through to subrecipients.

Criteria:

The internal control structure and processes should provide for the accurate reporting of federal award program names, CFDA numbers, award clusters and the amount passed through to subrecipients on the SEFA.

City of East Cleveland

Schedule of Findings and Questioned Costs (continued)

For the Year Ended December 31, 2014

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

2014-004: Material Weakness – Schedule of Expenditures of Federal Awards (SEFA) Preparation (continued)

Cause:

Controls were not in place to ensure accurate reporting of federal award program names, CFDA numbers, award clusters and the amount passed through to subrecipients on the SEFA.

Effect:

The lack of controls over the accurate reporting of federal award program names, CFDA numbers, award clusters and the amount passed through to subrecipients on the SEFA can result in the lack of compliance with OMB Circular A-133 required testing of major programs and errors and/or irregularities that may go undetected.

Recommendation:

We recommend that the SEFA be monitored and updated throughout the year to ensure accurate reporting of federal award program names, CFDA numbers, award clusters and any amount passed through to subrecipients on the SEFA.

Management's Response:

The SEFA will be monitored and updated throughout the year to ensure accurate reporting of federal award program names, CFDA numbers, award clusters and any amount passed through to subrecipients on the SEFA.

2014-005: Material Weakness – Municipal Court Bank Reconciliations

Condition:

During the procedures performed on the Municipal Court, we noted that the Municipal Court did not prepare bank reconciliations for all bank accounts utilized during the year ended December 31, 2014.

Criteria:

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

Cause:

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

Effect:

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

City of East Cleveland

Schedule of Findings and Questioned Costs (continued)

For the Year Ended December 31, 2014

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

2014-005: Material Weakness – Municipal Court Bank Reconciliations (continued)

Recommendation:

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

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.

2014-006: 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 of the Ohio Revised Code. These violations were cited extensively (repeatedly) in the reports leading up to the declaration of emergency. While in emergency, it is anticipated that these violations will continue until the City regains financial stability. Until that time, only new violations in funds that were not in deficit at the time of emergency declaration will be cited.

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

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

	Original Estimated Resources Plus <u>Carryover Balances</u>		Original <u>Appropriations</u>		<u>Excess</u>
Governmental Funds					
<i>Special Revenue Funds:</i>					
Neighborhood Support					
Program – 3	\$	214,758	\$	274,378	\$ 59,620
Police Accrued Liability Fund		50,147		52,321	2,174

City of East Cleveland

Schedule of Findings and Questioned Costs (continued)

For the Year Ended December 31, 2014

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

2014-006: Material Noncompliance – Budgetary Noncompliance (continued)

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

	<u>Final Estimated Resources Plus Carryover Balances</u>		<u>Final Appropriations</u>		<u>Excess</u>
Governmental Funds					
<i>Special Revenue Funds:</i>					
Neighborhood Support Program – 3	\$ 326,792	\$	386,614	\$	59,822
Police Accrued Liability Fund	29,610		76,843		47,233

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

At December 31, 2014, the City had expenditures plus encumbrances in excess of appropriations as follows:

<u>Fund/Function</u>	<u>Appropriations</u>		<u>Expenditure Plus Encumbrances</u>		<u>Excess</u>
<i>Special Revenue Funds:</i>					
Street Construction, Maintenance and Repair:					
Transportation:					
Personal Services	\$ 253,785	\$	293,360	\$	39,575
<i>City Probation Services:</i>					
Security of Persons and Property:					
Other expenditures	11,248		12,167		919
<i>Debt Service Funds:</i>					
Bond Retirement:					
Debt Service	172,448		296,157		123,709

Management's Response:

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

City of East Cleveland

Schedule of Findings and Questioned Costs (continued)

For the Year Ended December 31, 2014

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

2014-007: Material Noncompliance – Negative Cash Balances

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

The following funds had deficit cash balances at December 31, 2014:

Governmental Funds:	
General Fund	\$ 2,299,174
Older Americans	765,891
Courts Community Service	3,190
Domestic Violence	218,934
Community Development	135,535
D.A.R.E.	127
JAG Police	19,679
Neighborhood Stabilization Program – 3	54,353

Management's Response:

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

3. Findings for Federal Awards

2014-008 – Material Weakness in internal control over federal awards, Allowable Costs:

CDBG Entitlement Grants Cluster, CFDA #14.218 - Community Development Block Grant, Entitlement Program, CDBG State Administered CDBG Cluster.

Condition:

During our control testing performed over the allowable costs compliance requirement, we noted 2 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 agreement specifies that personnel costs are an allowable expense of the grant. Timesheets are utilized by the City to track hours worked by employees and supervisor approval of the timesheets indicates the City considers the hours worked as an allowable expense to these grant funds.

Cause:

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

City of East Cleveland

Schedule of Findings and Questioned Costs (continued)

For the Year Ended December 31, 2014

3. Findings for Federal Awards (continued)

2014-008 – Material Weakness in internal control over federal awards, Allowable Costs (continued):

Effect:

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

Recommendation:

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

Management's Response:

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

2014-009 – Material Noncompliance:

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

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

Management's Response:

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

City of East Cleveland

Schedule of Prior Audit Findings

December 31, 2014

Finding No.	Finding Summary	Fully Corrected	Explanation
2013-001	<p><i>Material Weakness in internal control over financial reporting</i></p> <p>We noted the City improperly included uncollectible amounts in the income tax and EMS receivable balances which resulted in material adjustments made to these receivable and the related deferred inflow balances. We also noted the City had improperly excluded accounts and judgments payable amounts from the financial statements resulting from improper cutoff procedures and resulting in material adjustments made to liability and expense accounts.</p>	No	The City had similar audit adjustments in the current year.
2013-002	<p><i>Material Weakness – Capital Assets</i></p> <p>During our procedures performed over the City’s capital assets it was noted that the cost and accumulated depreciation totals in the client’s system do not tie to the amounts reported in the City’s 2013 financial statements. We also noted the need to materially adjust the capital asset additions reported in 2013 as, in these instances, the City was capitalizing repairs and maintenance that should have been expensed during the year.</p>	No	The City had similar findings in the current year.
2013-003	<p><i>Material Weakness – Maintaining Payroll Forms</i></p> <p>During a review of 25 employees selected for testing, we noted multiple instances in which an approved payroll authorization form could not be located, inadequate documentation of hours worked, payroll authorization form was not appropriately approved, improper approval of compensated absences, and a lack of support for voluntary deductions. While all the salaries were within the salary range established by Council, we were not able to verify the amount paid agreed to the amount authorized, whether or not employees were appropriately compensated for actual hours worked, and whether or not their voluntary deductions were being properly processed.</p>	No	The City had similar findings in the current year.

City of East Cleveland

Schedule of Prior Audit Findings (continued)

December 31, 2014

Finding No.	Finding Summary	Fully Corrected	Explanation
2013-004	<p><i>Material Weakness – Restatement of Fund Balances and Net Position</i></p> <p>During 2013, it was determined the City should no longer present water and sewer enterprise funds. The City transferred ownership of the water lines to the City of Cleveland and the sewer lines to the Northeast Ohio Regional Sewer District in 2012. The remaining assets are being utilized in the street department. During 2013, it was determined that funds presented as special revenue should have been presented with the general fund. The City also determined that cash with segregated accounts was overstated and cash and cash equivalents, intergovernmental receivable and OPWC loans payable were understated.</p>	Yes	The City corrected this weakness in the current year.
2013-005	<p><i>Material Weakness – Schedule of Expenditures of Federal Awards (SEFA) Preparation and Reconciliations</i></p> <p>During our audit procedures, we noted that there was an unreconciled difference between the general ledger and the final SEFA of approximately \$9,400 relating to CDBG funds and \$19,064 relating to HOME funds.</p> <p>During our audit procedures, we also noted that the SEFA did not identify clusters and did not include a federal grant with expenditures in 2013.</p>	Partially corrected	The City corrected the unreconciled difference in the current year, but had similar findings over the SEFA preparation in the current year.
2013-006	<p><i>Material Weakness – Municipal Court Bank Reconciliations</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, 2013.</p>	No	The City had similar findings in the current year.

City of East Cleveland

Schedule of Prior Audit Findings (continued)

December 31, 2014

Finding No.	Finding Summary	Fully Corrected	Explanation
2013-007	<p><i>Material Noncompliance – Budgetary Noncompliance</i> Per Ohio Revised Code Section 5705.39, the total appropriations from each fund should not exceed the total estimated revenues. No appropriation measure is to become effective until the County files a certificate that the total appropriations from each fund do not exceed the total official estimate or amended official estimate.</p> <p>In addition, Ohio Revised Code 5705.41(B) states that no subdivision or taxing unit is to expend money unless it has been appropriated.</p> <p>At December 31, 2013, the City had several funds where original and final appropriations materially exceeded estimated resources plus carryover balances and expenditures plus encumbrances in excess of appropriations.</p>	No	The City has material noncompliance again in 2014.
2013-008	<p><i>Material Noncompliance – Negative Cash Balances</i> Ohio Revised Code Section 5705.10 states that money that is paid into a fund must be used only for the purposes for which such fund has been established. As a result, a negative fund balance indicates that money from one fund was used to cover the expenses of another fund.</p> <p>At December 31, 2013, the City had several funds with deficit cash balances.</p>	No	The City has material noncompliance again in 2014.
2013-009	<p><i>Material Weakness in internal control over federal awards, Allowable Costs</i> During our control testing performed over the allowable costs compliance requirement, we noted multiple instances in which approved payroll authorization forms could not be located and timesheets were not approved. All the salaries were within the salary range established by Council and the time reported on the timesheets matched the hours for which the employee was paid.</p>	No	The City had similar findings in the current year.

City of East Cleveland

Schedule of Prior Audit Findings (continued)

December 31, 2014

Finding No.	Finding Summary	Fully Corrected	Explanation
2013-010	<p><i>Federal Finding – Material Noncompliance</i></p> <p>OMB Circular A-133 Section 300(e) provides that the auditee is responsible for appropriate submission of the audit reports to the appropriate government officials and organizations. OMB Circular A-133 Section 320(a) further provides that the audit report and data collection form must be submitted within the earlier of 30 days after the reports are received from the auditors, or nine months after the end of the audit period, unless a longer period is agreed upon in advance by the cognizant or oversight agency.</p> <p>It was noted that the City did not submit the required documentation within the time period discussed above.</p>	No	The City has noncompliance again in 2014.



The City of East Cleveland

14340 EUCLID AVENUE • EAST CLEVELAND, OHIO 44112 • PHONE (216) 681-2208 • FAX (216) 681-2650

Brandon L. King
Mayor

City of East Cleveland

Corrective Action Plan

December 31, 2014

Finding Number	Planned Correction Action	Anticipated Completion Date	Responsible Contact Person
2014-001	The City will complete an assessment of uncollectible accounts receivable balances at year-end and implement proper cut-off procedures by identifying items that should be reported as accounts payable. The City will ensure that these items are communicated with third parties assisting with the GAAP conversion.	December 31, 2018	Charles Iyahen, Interim Finance Director
2014-002	The City will reconcile the amounts reported in the City's computer system in order to accurately report the amount of capital assets and accumulated depreciation at year-end as well as implement a capital asset policy that incorporates each item in the recommendation as applicable.	December 31, 2018	Charles Iyahen, Interim Finance Director
2014-003	The City is taking the necessary steps to ensure proper payroll approvals are obtained, adequate documentation of hours worked, proper approval of compensated absences, and support for voluntary deductions is obtained.	December 31, 2018	Charles Iyahen, Interim Finance Director
2014-004	The SEFA be monitored and updated throughout the year to ensure accurate reporting of federal award program names, CFDA numbers, award clusters and any amount passed through to subrecipients on the SEFA.	December 31, 2018	Charles Iyahen, Interim Finance Director
2014-005	The City is taking the necessary steps to ensure Municipal Court bank reconciliations are prepared timely and reviewed and approved by the finance department.	December 31, 2018	Charles Iyahen, Interim Finance Director



The City of East Cleveland

14340 EUCLID AVENUE • EAST CLEVELAND, OHIO 44112 • PHONE (216) 681-2208 • FAX (216) 681-2650

Brandon L. King
Mayor

City of East Cleveland

Corrective Action Plan

December 31, 2014

Finding Number	Planned Correction Action	Anticipated Completion Date	Responsible Contact Person
2014-006	Management will compare original and final appropriations to original and final estimated resources plus carryover balances on a monthly basis to ensure estimated resources plus carryover balances are not exceeded or budgetary adjustments are made. Management will also compare appropriations with expenditures plus encumbrances on a monthly basis to ensure appropriations are not exceeded or budgetary adjustments are made.	December 31, 2018	Charles Iyahan, Interim Finance Director
2014-007	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, 2018	Charles Iyahan, Interim Finance Director
2014-008	The City is taking the necessary steps to ensure proper payroll approvals are obtained, adequate documentation of hours worked, proper approval of compensated absences, and support for voluntary deductions is obtained in order to support the amounts charged to federal grants.	December 31, 2018	Charles Iyahan, Interim Finance Director
2014-009	The City will attempt to submit the required OMB Circular A-133 documentation within the earlier of 30 days after the reports are received from the auditors, or nine months after the end of the audit period.	December 31, 2018	Charles Iyahan, Interim Finance Director



Dave Yost • Auditor of State

CITY OF EAST CLEVELAND

CUYAHOGA COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
MAY 15, 2018**