

City of East Cleveland, Ohio

Single Audit Reports

December 31, 2012



Dave Yost • Auditor of State

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

We have reviewed the *Independent Auditor's Report* of the City of East Cleveland, Cuyahoga County, prepared by Ciuni & Panichi, Inc., for the audit period January 1, 2012 through December 31, 2012. Based upon this review, we have accepted these reports in lieu of the audit required by Section 117.11, Revised Code. The Auditor of State did not audit the accompanying financial statements and, accordingly, we are unable to express, and do not express an opinion on them.

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

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

Dave Yost
Auditor of State

December 12, 2013

This page intentionally left blank.

City of East Cleveland, Ohio

For the Year Ended December 31, 2012

Table of Contents	Page
Independent Auditor's Report	1
Management Discussion and Analysis	5
Basic Financial Statements:	
Government-Wide Financial Statements:	
Statement of Net Position	14
Statement of Activities	15
Fund Financial Statements:	
Balance Sheet – Governmental Funds	17
Reconciliation of total Governmental Fund Balances to Net Position of Governmental Activities	18
Statement of Revenues, Expenditures and Changes in Fund Balances of Governmental Funds	19
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances of Governmental Funds to the Statement of Activities	20
Statement of Revenues, Expenditures and Changes in Fund Balance - Budget (Non-GAAP Basis) and Actual	
General Fund	21
Emergency Medical Services Fund	22
Community Development Block Grant Fund	23
Statement of Fund Net Position – Enterprise Funds	24
Statement of Revenues, Expenses and Changes in Fund Net Position - Enterprise Funds	25
Statement of Cash Flows – Enterprise Funds	26
Statement of Fiduciary Assets and Liabilities – Agency Funds	28
Notes to Basic Financial Statements	29
Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	57

City of East Cleveland, Ohio

For The Year Ended December 31, 2012

Table of Contents	Page
Independent Auditor’s Report on Compliance with Each Major Federal Program; Report on Internal Control over Compliance; and Report on the Schedule of Expenditures of Federal Awards Required by OMB Circular A-133	59
Schedule of Expenditures of Federal Awards	62
Notes to the Schedule of Expenditures of Federal Awards	63
Schedule of Findings OMB Circular A-133 Section .505	64
Schedule of Prior Audit Findings	74
Response to Findings Associated With Audit Conducted In Accordance With <i>Government Auditing Standards</i>	79

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, the business-type activities, each major fund, and the aggregate remaining fund information of the City of East Cleveland, Ohio (the "City"), as of and for the year ended December 31, 2012, 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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of East Cleveland, Ohio, as of December 31, 2012, and the respective changes in financial position and, where applicable, cash flows thereof 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

The accompanying financial statements have been prepared assuming that the City will continue as a going concern. The City had an operating loss of \$4,942,857 for the year ended December 31, 2012, that raises substantial doubt about its ability to continue as a going concern. As described in Note 20 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.

As described in Note 3 to the basic financial statements, in 2012, the City adopted new accounting guidance, Governmental Accounting Standards Board (GASB) Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*, and GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 5 through 12 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.

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

Other Reporting Required by *Government Auditing Standards*

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

Cini & Parichi, Inc.

Cleveland, Ohio
October 30, 2013

This Page Intentionally Left Blank

City of East Cleveland, Ohio
Management's Discussion and Analysis
For the Year Ended December 31, 2012
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, 2012. 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 2012 are as follows:

- On October 9, 2012, the State Auditor's Office placed the City of East Cleveland into Fiscal Emergency. Prior to this declaration, the City had been in Fiscal Caution, and then Fiscal Watch. The inability of the City to come up with a financial recovery plan that would address deficit fund balances is what ultimately brought it into Fiscal Emergency. Since receiving this designation, the City has worked to put in place a plan of action to eliminate this situation.
- The City entered into a cooperative agreement with The Cleveland Clinic Foundation during 2011. The Clinic agreed to contribute a total of \$7,800,000 to the City and the City would cooperate with the Clinic with the closure of Huron Hospital and the opening of Huron Community Health Center. The City collected \$3,000,000 from the Clinic in 2012.

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 2012 and how they affected the operations of the City as a whole.

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

Reporting the City of East Cleveland as a Whole

Statement of Net Position and Statement of Activities

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

These two statements report the City's net position and changes in net position. The change in net position is important since it is an indication of whether the financial position of the City is improving or declining. However, to properly evaluate the operation of the City, certain non-cash items should be taken into

City of East Cleveland, Ohio
Management's Discussion and Analysis
For the Year Ended December 31, 2012
Unaudited

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's business-type activities are water and sewer.

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

Fund Financial Statements

The analysis of the City's funds begins on page 10. 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 five major funds: general, emergency medical services, community development, water and sewer.

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

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

Proprietary Funds Proprietary funds use the same basis of accounting as business-type activities; therefore, these statements will essentially match.

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

City of East Cleveland, Ohio
Management's Discussion and Analysis
For the Year Ended December 31, 2012
Unaudited

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 2012 compared to 2011.

Table 1
Net Position

	Governmental Activities		Business-Type Activities		Totals	
	2012	2011	2012	2011	2012	2011
Assets						
Current and Other Assets	\$15,269,330	\$21,776,368	(\$738,999)	(\$867,966)	\$14,530,331	\$20,908,402
Capital Assets, Net	17,538,294	17,585,343	1,036,587	579,412	18,574,881	18,164,755
<i>Total Assets (Deficit)</i>	<u>32,807,624</u>	<u>39,361,711</u>	<u>297,588</u>	<u>(288,554)</u>	<u>33,105,212</u>	<u>39,073,157</u>
Liabilities						
Current Liabilities	2,300,624	3,845,789	0	44,680	2,300,624	3,890,469
Long-Term Liabilities:						
Due Within One Year	383,950	352,977	46,970	47,860	430,920	400,837
Due in More than One Year	5,638,385	5,823,355	180,905	231,657	5,819,290	6,055,012
<i>Total Liabilities</i>	<u>8,322,959</u>	<u>10,022,121</u>	<u>227,875</u>	<u>324,197</u>	<u>8,550,834</u>	<u>10,346,318</u>
Deferred Inflows of Resources						
Property Taxes	1,028,294	1,263,728	0	0	1,028,294	1,263,728
Net Position						
Net Investment in Capital Assets	13,797,927	13,682,562	1,036,587	579,412	14,834,514	14,261,974
Restricted for:						
Capital Projects	1,366,826	1,256,331	0	0	1,366,826	1,256,331
Debt Service	6,555	0	0	0	6,555	0
Home Program	1,885,705	2,737,277	0	0	1,885,705	2,737,277
Street	475,386	478,204	0	0	475,386	478,204
Special Project Courts	578,080	579,553	0	0	578,080	579,553
Other Purposes	454,863	276,565	0	0	454,863	276,565
Unrestricted (Deficit)	4,891,029	8,708,005	(966,874)	(1,192,163)	3,924,155	7,515,842
<i>Total Net Position (Deficit)</i>	<u>\$23,456,371</u>	<u>\$27,718,497</u>	<u>\$69,713</u>	<u>(\$612,751)</u>	<u>\$23,526,084</u>	<u>\$27,105,746</u>

Total net position for governmental activities decreased mainly due to decreases in cash on hand, intergovernmental and property tax receivables. The decrease in intergovernmental receivables is due to further cuts in State funding, and the decrease in property tax receivable is due to the general devaluation of properties within the entire northeast Ohio region.

The decrease in liabilities was mainly due to large decrease in intergovernmental payable as the City had to catch up on fewer previous obligations compared to 2011 when the City had to account for charges for 2009 through 2011 owed to Workers Compensation and Ohio Department of Jobs and Families Services in the amount of \$965,451. The decrease was also due to paying down of long-term debt obligations.

Total net position for business-type activities increased mainly due to an increase in capital grants as well as an increase in net capital assets resulting from Wymore and Noble water main projects. The increase in business-type net position was also due to a reduction in long-term debt from the pay-down of OPWC loans.

City of East Cleveland, Ohio
Management's Discussion and Analysis
For the Year Ended December 31, 2012
Unaudited

Table 2 shows the changes in net position for the year ended December 31, 2012 for both governmental activities and business-type activities. Revenue and expense comparisons to the year 2011 are also shown.

Table 2
Changes in Net Position

	Governmental Activities		Business-Type Activities		Totals	
	2012	2011	2012	2011	2012	2011
Revenues:						
Program Revenues:						
Charges for Services	\$3,977,585	\$2,934,446	\$71,630	\$288,048	\$4,049,215	\$3,222,494
Operating Grants and Contributions	2,904,098	4,368,446	0	0	2,904,098	4,368,446
Capital Grants and Contributions	0	0	520,559	0	520,559	0
<i>Total Program Revenues</i>	<u>6,881,683</u>	<u>7,302,892</u>	<u>592,189</u>	<u>288,048</u>	<u>7,473,872</u>	<u>7,590,940</u>
General Revenues:						
Property Taxes	1,287,237	1,915,856	0	0	1,287,237	1,915,856
Municipal Income Taxes	5,540,980	5,527,793	0	0	5,540,980	5,527,793
Hotel Tax	4,471	8,536	0	0	4,471	8,536
Grants and Entitlements	2,865,325	4,050,903	0	0	2,865,325	4,050,903
Investment Earnings	552	907	0	0	552	907
Gain on Sale of Capital Assets	7,231	0	0	0	7,231	0
Other	961,942	991,141	52,885	0	1,014,827	991,141
<i>Total General Revenues</i>	<u>10,667,738</u>	<u>12,495,136</u>	<u>52,885</u>	<u>0</u>	<u>10,720,623</u>	<u>12,495,136</u>
<i>Total Revenues</i>	<u>17,549,421</u>	<u>19,798,028</u>	<u>645,074</u>	<u>288,048</u>	<u>18,194,495</u>	<u>20,086,076</u>
Program Expenses						
General Government	5,174,961	6,767,032	0	0	5,174,961	6,767,032
Security of Persons and Property	10,109,964	9,735,651	0	0	10,109,964	9,735,651
Transportation	1,417,001	2,064,034	0	0	1,417,001	2,064,034
Community Development	3,400,142	2,691,245	0	0	3,400,142	2,691,245
Leisure Time Activities	702,267	334,921	0	0	702,267	334,921
Basic Utility Services	941,135	586,548	0	0	941,135	586,548
Interest and Fiscal Charges	19,107	57,242	0	0	19,107	57,242
Water	0	0	8,098	1,227	8,098	1,227
Sewer	0	0	1,482	142,105	1,482	142,105
<i>Total Program Expenses</i>	<u>21,764,577</u>	<u>22,236,673</u>	<u>9,580</u>	<u>143,332</u>	<u>21,774,157</u>	<u>22,380,005</u>
<i>Increase (Decrease) in Net Position</i>						
<i>before Transfers and Extraordinary Item</i>	(4,215,156)	(2,438,645)	635,494	144,716	(3,579,662)	(2,293,929)
Transfers	(46,970)	16,610	46,970	(16,610)	0	0
Extraordinary Item	0	7,800,000	0	0	0	7,800,000
Increase (Decrease) in Net Position	(4,262,126)	5,377,965	682,464	128,106	(3,579,662)	5,506,071
<i>Net Position (Deficit) Beginning of Year</i>	<u>27,718,497</u>	<u>22,340,532</u>	<u>(612,751)</u>	<u>(740,857)</u>	<u>27,105,746</u>	<u>21,599,675</u>
<i>Net Position (Deficit) End of Year</i>	<u>\$23,456,371</u>	<u>\$27,718,497</u>	<u>\$69,713</u>	<u>(\$612,751)</u>	<u>\$23,526,084</u>	<u>\$27,105,746</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.

City of East Cleveland, Ohio
Management's Discussion and Analysis
For the Year Ended December 31, 2012
Unaudited

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, 2012. 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 property tax revenues is due to the general devaluation of properties within the entire northeast Ohio region. The decrease in income tax revenue was due to a continuing decrease in the commercial tax base, which in turn resulted in a decrease in withholding tax collections. General revenues from grants and entitlements, such as local government funds, are also revenue generators. Grants and Entitlements decreased compared to last year's levels due to less local governmental funding received in 2012. The remaining revenues represent charges for services, interest and miscellaneous receipts. Charges for services include ambulance billing, parks and recreation fees, refuse fees, towing and impound fees, and health and vital statistics fees.

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 81 patrolmen and dispatchers. The fire department is staffed by 44 full-time firefighters. The police and fire departments are operated with general fund dollars. The City allocates monies from the inside (unvoted) millage to the police pension and fire pension special revenue funds to pay the employer's portion of retirement and disability benefits to the Ohio Police and Fire Pension Fund.

The increase in security of persons and property is mostly due to increases in health insurance costs. Community development expenses increased due to more projects in 2012. 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
	2012	2011	2012	2011
General Government	\$5,174,961	\$6,767,032	\$4,308,218	\$5,955,345
Security of Persons and Property	10,109,964	9,735,651	7,467,916	6,032,328
Transportation	1,417,001	2,064,034	792,392	1,491,592
Community Development	3,400,142	2,691,245	925,045	576,927
Leisure Time Activities	702,267	334,921	585,857	298,683
Basic Utility Services	941,135	586,548	784,359	521,664
Interest and Fiscal Charges	19,107	57,242	19,107	57,242
Total	\$21,764,577	\$22,236,673	\$14,882,894	\$14,933,781

Business-Type Activities

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

City of East Cleveland, Ohio
Management's Discussion and Analysis
For the Year Ended December 31, 2012
Unaudited

sewer treatment services. The City owns and maintains the sewer lines throughout the City. The residential and commercial customers are charged \$47.72 per 1,000 cubic feet of water purchased for these sewer services. Homestead customers pay a reduced rate of \$35.63 per 1,000 cubic feet for these services. The revenues and expenses for both of these utilities are reported under the business-type activities in Table 2. The revenues are derived primarily from charges for services.

The City's Funds

A review of the City's governmental funds provides information on near-term flows and balances of expendable resources and serves as a useful measure of a government's net resources. Governmental fund information can be found on page 17 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 \$1,722,922 at year end. There were many major factors that resulted in these deficit fund balances. Some of these were high unemployment rate that resulted in lower municipal tax collections, continued decline in property taxes, while other factors include an increase in the security of persons and property, community development and basic utility services programs. The community development major fund also had a deficit fund balance of \$577,541 at year end.

Information about the proprietary funds starts on page 24. These funds are accounted for on an accrual basis. All enterprise funds had an increase in net position for 2012.

Budgeting Highlights

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

Strong emphasis is placed on fund balances. The Finance Director reviews the fund balances on a daily basis. Special attention is paid to the City's most active funds, which are the general, community development, water and sewer 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 at \$13,297,003. Actual revenues of \$12,823,145 were \$473,858 lower than the final projections. The original and the final budgeted expenditures were the same at \$17,090,406. Actual expenditures were \$2,258,534 more than the budgeted expenditures. Despite the efforts of the City's leaders to constantly monitor its finances, the City's ending unencumbered cash balance in the general fund was (\$1,322,344).

City of East Cleveland, Ohio
Management's Discussion and Analysis
For the Year Ended December 31, 2012
Unaudited

Capital Assets and Debt Administration

Capital Assets

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

	Governmental Activities		Business-Type Activities		Totals	
	2012	2011	2012	2011	2012	2011
Land	\$920,260	\$920,260	\$0	\$0	\$920,260	\$920,260
Construction in Progress	280,218	0	275,287	0	555,505	0
Buildings and Improvements	1,012,797	1,063,699	0	0	1,012,797	1,063,699
Equipment	90,211	131,822	7,933	12,102	98,144	143,924
Vehicles	405,947	503,525	31,381	35,231	437,328	538,756
Infrastructure	14,828,861	14,966,037	721,986	532,079	15,550,847	15,498,116
Totals	\$17,538,294	\$17,585,343	\$1,036,587	\$579,412	\$18,574,881	\$18,164,755

Total capital assets for governmental activities for the City of East Cleveland decreased from 2011. The decrease was primarily decreased due to more depreciation taken in 2012 than new capital assets being acquired. Business-type capital assets increased due to additions to construction in progress and infrastructure outpacing current year depreciation. See Note 10 in the financial statements for more information regarding the City's capital assets.

Debt

The outstanding debt for the City of East Cleveland as of December 31, 2012 has decreased.

Table 5
Outstanding Debt at December 31

	Governmental Activities		Business-Type Activities		Totals	
	2012	2011	2012	2011	2012	2011
Capital Leases	\$59,913	\$146,935	\$0	\$0	\$59,913	\$146,935
Police and Fire Liability	1,344,378	1,379,736	0	0	1,344,378	1,379,736
OPWC Loans	2,995,976	3,192,447	227,875	274,845	3,223,851	3,467,292
Notes Payable	411,685	775,885	0	0	411,685	775,885
Totals	\$4,811,952	\$5,495,003	\$227,875	\$274,845	\$5,039,827	\$5,769,848

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

The Ohio Public Works Commission (OPWC) governmental activities loans are comprised of two separate, zero percent interest loans. The purpose of the loans is for the construction and improvement of streets. The loans will be paid over a period of 20 years from the permanent improvement capital projects fund and the street special revenue fund.

City of East Cleveland, Ohio
Management's Discussion and Analysis
For the Year Ended December 31, 2012
Unaudited

The Ohio Public Works Commission (OPWC) business-type activities loans are comprised of five separate, zero percent interest loans. The purpose of these loans is for the construction and improvement of various water projects, most notable of which is the 1997 water main project. These loans will be repaid over a period of 20 years by user fees. The loans will be retired between 2014 and 2030.

On December 28, 2005, the City, in accordance with Ohio Revised Code Section 118.17(C), issued \$2,913,600 in local government fund notes at 4.19 percent interest to eliminate deficit funds. The notes will be repaid with local government monies.

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

Current Financial Issues

The City of East Cleveland 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, 2012. To alleviate the financial shortfall, the City has developed a strategy to stabilize its cash shortfall in the aforementioned funds. See Note 20 for further information.

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

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

Contacting the City's Finance Department

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

BASIC FINANCIAL STATEMENTS

City of East Cleveland, Ohio

Statement of Net Position

December 31, 2012

	Governmental Activities	Business-Type Activities	Total
Assets			
Equity in Pooled Cash and			
Cash Equivalents	\$690,854	\$0	\$690,854
Cash and Cash Equivalents			
In Segregated Accounts	100,960	0	100,960
Accounts Receivable	2,780,289	0	2,780,289
Internal Balances	738,999	(738,999)	0
Intergovernmental Receivable	3,773,832	0	3,773,832
Prepaid Items	9,043	0	9,043
Materials and Supplies Inventory	12,426	0	12,426
Municipal Income Taxes Receivable	2,899,719	0	2,899,719
Property Taxes Receivable	4,263,208	0	4,263,208
Nondepreciable Capital Assets	1,200,478	275,287	1,475,765
Depreciable Capital Assets, Net	16,337,816	761,300	17,099,116
<i>Total Assets</i>	<u>32,807,624</u>	<u>297,588</u>	<u>33,105,212</u>
Liabilities			
Accounts Payable	475,713	0	475,713
Accrued Wages	313,389	0	313,389
Contracts Payable	672,221	0	672,221
Intergovernmental Payable	406,374	0	406,374
Accrued Interest Payable	5,949	0	5,949
Matured Compensated Absences Payable	3,036	0	3,036
Retainage Payable	12,257	0	12,257
Notes Payable	411,685	0	411,685
Long-Term Liabilities:			
Due Within One Year	383,950	46,970	430,920
Due In More Than One Year	5,638,385	180,905	5,819,290
<i>Total Liabilities</i>	<u>8,322,959</u>	<u>227,875</u>	<u>8,550,834</u>
Deferred Inflows of Resources			
Property Taxes	1,028,294	0	1,028,294
Net Position			
Net Investment in Capital Assets	13,797,927	1,036,587	14,834,514
Restricted for:			
Capital Projects	1,366,826	0	1,366,826
Debt Service	6,555	0	6,555
Home Program	1,885,705	0	1,885,705
Street	475,386	0	475,386
Special Project Courts	578,080	0	578,080
Other Purposes	454,863	0	454,863
Unrestricted (Deficit)	4,891,029	(966,874)	3,924,155
<i>Total Net Position</i>	<u>\$23,456,371</u>	<u>\$69,713</u>	<u>\$23,526,084</u>

See accompanying notes to the basic financial statements

City of East Cleveland, Ohio
Statement of Activities
For the Year Ended December 31, 2012

	Program Revenues			
	Expenses	Charges for Services and Operating Assessments	Operating Grants and Contributions	Capital Grants and Contributions
Governmental Activities:				
General Government	\$5,174,961	\$866,743	\$0	\$0
Security of Persons and Property	10,109,964	2,574,975	67,073	0
Transportation	1,417,001	198,845	425,764	0
Community Development	3,400,142	63,836	2,411,261	0
Leisure Time Activities	702,267	116,410	0	0
Basic Utility Services	941,135	156,776	0	0
Interest and Fiscal Charges	19,107	0	0	0
<i>Total Governmental Activities</i>	<u>21,764,577</u>	<u>3,977,585</u>	<u>2,904,098</u>	<u>0</u>
Business-Type Activities:				
Water	8,098	845	0	520,559
Sewer	1,482	70,785	0	0
<i>Total Business-Type Activities</i>	<u>9,580</u>	<u>71,630</u>	<u>0</u>	<u>520,559</u>
<i>Total</i>	<u>\$21,774,157</u>	<u>\$4,049,215</u>	<u>\$2,904,098</u>	<u>\$520,559</u>

General Revenues

Property Taxes Levied for:

 General Purposes

 Capital Projects

 Police Pension Liability

 Fire Pension Liability

Municipal Income Taxes Levied for

 General Purposes

Hotel Tax

Grants and Entitlements not Restricted to Specific Programs

Interest

Gain on Sale of Capital Assets

Other

Total General Revenues before Transfers

Transfers

Total General Revenues and Transfers

Change in Net Position

Net Position (Deficit) Beginning of Year

Net Position End of Year

See accompanying notes to the basic financial statements

Net (Expense) Revenue and Changes in Net Position		
Primary Government		
Governmental Activities	Business-Type Activities	Total
(\$4,308,218)	0	(\$4,308,218)
(7,467,916)	0	(7,467,916)
(792,392)	0	(792,392)
(925,045)	0	(925,045)
(585,857)	0	(585,857)
(784,359)	0	(784,359)
(19,107)	0	(19,107)
(14,882,894)	0	(14,882,894)
0	513,306	513,306
0	69,303	69,303
0	582,609	582,609
(14,882,894)	582,609	(14,300,285)
908,155	0	908,155
291,808	0	291,808
43,637	0	43,637
43,637	0	43,637
5,540,980	0	5,540,980
4,471	0	4,471
2,865,325	0	2,865,325
552	0	552
7,231	0	7,231
961,942	52,885	1,014,827
10,667,738	52,885	10,720,623
(46,970)	46,970	0
10,620,768	99,855	10,720,623
(4,262,126)	682,464	(3,579,662)
27,718,497	(612,751)	27,105,746
\$23,456,371	\$69,713	\$23,526,084

See accompanying notes to the basic financial statements

City of East Cleveland, Ohio

Balance Sheet

Governmental Funds

December 31, 2012

	General	Emergency Medical Services	Community Development	Other Governmental Funds	Total Governmental Funds
Assets					
Equity in Pooled Cash and Cash Equivalents	\$0	\$0	\$0	\$690,854	\$690,854
Cash and Cash Equivalents In Segregated Accounts	0	0	0	100,960	100,960
Accounts Receivable	1,870,715	909,134	0	440	2,780,289
Interfund Receivable	0	828,735	0	1,936,588	2,765,323
Intergovernmental Receivable	901,779	0	2,529,056	342,997	3,773,832
Prepaid Items	9,043	0	0	0	9,043
Materials and Supplies Inventory	8,121	0	940	3,365	12,426
Municipal Income Taxes Receivable	2,899,719	0	0	0	2,899,719
Property Taxes Receivable	3,390,858	0	0	872,350	4,263,208
<i>Total Assets</i>	<u>\$9,080,235</u>	<u>\$1,737,869</u>	<u>\$2,529,996</u>	<u>\$3,947,554</u>	<u>\$17,295,654</u>
Liabilities					
Accounts Payable	\$435,897	\$11,480	\$0	\$28,336	\$475,713
Accrued Wages	298,289	905	6,173	8,022	313,389
Contracts Payable	0	0	525,576	146,645	672,221
Intergovernmental Payable	390,735	116	9,066	6,457	406,374
Matured Compensated Absences Payable	2,543	0	0	493	3,036
Retainage Payable	0	0	12,257	0	12,257
Interfund Payable	1,197,112	0	73,868	755,344	2,026,324
Notes Payable	411,685	0	0	0	411,685
<i>Total Liabilities</i>	<u>2,736,261</u>	<u>12,501</u>	<u>626,940</u>	<u>945,297</u>	<u>4,320,999</u>
Deferred Inflows of Resources					
Property Taxes	817,801	0	0	210,493	1,028,294
Unavailable Revenue	7,249,095	815,908	2,480,597	828,246	11,373,846
<i>Total Deferred Inflows of Resources</i>	<u>8,066,896</u>	<u>815,908</u>	<u>2,480,597</u>	<u>1,038,739</u>	<u>12,402,140</u>
Fund Balances					
Nonspendable	17,164	0	940	3,365	21,469
Restricted	0	0	0	2,808,231	2,808,231
Committed	0	909,460	0	1,011	910,471
Unassigned (Deficit)	(1,740,086)	0	(578,481)	(849,089)	(3,167,656)
<i>Total Fund Balances (Deficit)</i>	<u>(1,722,922)</u>	<u>909,460</u>	<u>(577,541)</u>	<u>1,963,518</u>	<u>572,515</u>
<i>Total Liabilities, Deferred Inflows of Resources and Fund Balances</i>	<u>\$9,080,235</u>	<u>\$1,737,869</u>	<u>\$2,529,996</u>	<u>\$3,947,554</u>	<u>\$17,295,654</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, 2012*

Total Governmental Funds Balances	\$572,515
 <i>Amounts reported for governmental activities in the statement of net position are different because</i>	
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.	17,538,294
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	3,234,279
Municipal Income Taxes	2,508,471
Intergovernmental	3,013,199
Cleveland Clinic Settlement	1,800,000
Charges for Services	815,908
Other	1,989
 Total	 11,373,846
In the statement of net position, interest is accrued on outstanding liabilities, whereas in governmental funds, an interest expenditure is reported when due.	(5,949)
Long-term liabilities are not due and payable in the current period and therefore are not reported in the funds:	
OPWC Loans	(2,995,976)
Capital Leases	(59,913)
Police and Fire Pension Liability	(1,344,378)
Compensated Absences	(1,622,068)
 Total	 <u>(6,022,335)</u>
 <i>Net Position of Governmental Activities</i>	 <u><u>\$23,456,371</u></u>

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, 2012

	General	Emergency Medical Services	Community Development	Other Governmental Funds	Total Governmental Funds
Revenues					
Property Taxes	\$568,804	\$0	\$0	\$292,074	\$860,878
Hotel Tax	4,471	0	0	0	4,471
Municipal Income Taxes	5,123,073	0	0	0	5,123,073
Special Assessments	15,941	0	0	0	15,941
Intergovernmental	3,449,229	0	1,591,382	1,261,538	6,302,149
Fees, Licenses and Permits	465,644	0	0	68,228	533,872
Fines and Forfeitures	1,779,803	0	0	12,719	1,792,522
Rentals	8,706	0	0	5,280	13,986
Charges for Services	643,193	742,944	4,350	7,881	1,398,368
Interest	514	0	0	38	552
Other	856,064	0	103,889	0	959,953
<i>Total Revenues</i>	<u>12,915,442</u>	<u>742,944</u>	<u>1,699,621</u>	<u>1,647,758</u>	<u>17,005,765</u>
Expenditures					
Current:					
General Government	4,819,610	0	0	66,974	4,886,584
Security of Persons and Property	9,443,946	200,746	0	254,276	9,898,968
Transportation	1,243,621	0	0	428,582	1,672,203
Community Development	323,969	0	2,268,473	807,234	3,399,676
Leisure Time Activities	696,928	0	0	0	696,928
Basic Utility Services	941,025	0	0	0	941,025
Capital Outlay	0	0	0	38,183	38,183
Debt Service:					
Principal Retirement	8,784	0	0	310,067	318,851
Interest and Fiscal Charges	33,449	0	0	62,755	96,204
<i>Total Expenditures</i>	<u>17,511,332</u>	<u>200,746</u>	<u>2,268,473</u>	<u>1,968,071</u>	<u>21,948,622</u>
<i>Excess of Revenues Over (Under) Expenditures</i>	<u>(4,595,890)</u>	<u>542,198</u>	<u>(568,852)</u>	<u>(320,313)</u>	<u>(4,942,857)</u>
Other Financing Sources (Uses)					
Sale of Capital Assets	7,231	0	0	0	7,231
Transfers In	1,000,000	0	0	31,000	1,031,000
Transfers Out	(77,970)	(1,000,000)	0	0	(1,077,970)
<i>Total Other Financing Sources (Uses)</i>	<u>929,261</u>	<u>(1,000,000)</u>	<u>0</u>	<u>31,000</u>	<u>(39,739)</u>
Extraordinary Item					
Cleveland Clinic Settlement	3,000,000	0	0	0	3,000,000
<i>Net Change in Fund Balances</i>	<u>(666,629)</u>	<u>(457,802)</u>	<u>(568,852)</u>	<u>(289,313)</u>	<u>(1,982,596)</u>
<i>Fund Balances (Deficit) Beginning of Year</i>	<u>(1,056,293)</u>	<u>1,367,262</u>	<u>(8,689)</u>	<u>2,252,831</u>	<u>2,555,111</u>
<i>Fund Balances (Deficit) End of Year</i>	<u>(\$1,722,922)</u>	<u>\$909,460</u>	<u>(\$577,541)</u>	<u>\$1,963,518</u>	<u>\$572,515</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, 2012*

Net Change in Fund Balances - Total Governmental Funds (\$1,982,596)

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

Governmental funds report capital outlays as expenditures.

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

Capital Outlay	525,010	
Depreciation	(572,059)	
Total		(47,049)

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

Delinquent Property Taxes	426,359	
Municipal Income Taxes	417,907	
Intergovernmental	(532,726)	
Cleveland Clinic Settlement	(3,000,000)	
Charges for Services	222,896	
Other	1,989	
Total		(2,463,575)

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. 318,851

In the statement of activities interest is accrued whereas in governmental funds, an interest expenditure is reported when due. 77,097

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. (164,854)

Change in Net Position of Governmental Activities (\$4,262,126)

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, 2012

	Budgeted Amounts			Variance with Final Budget Positive (Negative)
	Original	Final	Actual	
Revenues				
Property Taxes	\$1,465,867	\$1,465,867	\$1,363,676	(\$102,191)
Hotel Tax	6,508	6,508	4,688	(1,820)
Municipal Income Taxes	4,189,364	4,189,364	5,229,395	1,040,031
Special Assessments	93,478	93,478	16,174	(77,304)
Intergovernmental	3,070,541	3,070,541	2,958,632	(111,909)
Fees, Licenses and Permits	398,630	398,630	433,386	34,756
Fines and Forfeitures	3,192,473	3,192,473	1,608,671	(1,583,802)
Rentals	1,872	1,872	8,706	6,834
Charges for Services	659,371	659,371	633,337	(26,034)
Interest	22	22	105	83
Other	218,877	218,877	566,375	347,498
<i>Total Revenues</i>	13,297,003	13,297,003	12,823,145	(473,858)
Expenditures				
Current:				
General Government	4,793,812	4,793,812	5,535,809	(741,997)
Security of Persons and Property	8,447,734	8,447,734	10,350,272	(1,902,538)
Transportation	1,427,362	1,427,362	1,068,778	358,584
Community Development	369,354	369,354	307,500	61,854
Leisure Time Activities	575,180	575,180	685,813	(110,633)
Basic Utility Services	996,980	996,980	1,147,315	(150,335)
Debt Service:				
Principal Retirement	429,484	429,484	251,282	178,202
Interest and Fiscal Charges	50,500	50,500	2,171	48,329
<i>Total Expenditures</i>	17,090,406	17,090,406	19,348,940	(2,258,534)
<i>Excess of Revenues Under Expenditures</i>	(3,793,403)	(3,793,403)	(6,525,795)	(2,732,392)
Other Financing Sources (Uses)				
Sale of Capital Assets	0	0	7,231	7,231
Transfers In	1,000,000	1,000,000	1,000,000	0
Transfers Out	0	0	(31,000)	(31,000)
<i>Total Other Financing Sources (Uses)</i>	1,000,000	1,000,000	976,231	(23,769)
Extraordinary Item				
Cleveland Clinic Settlement	3,000,000	3,000,000	3,000,000	0
<i>Net Change in Fund Balance</i>	206,597	206,597	(2,549,564)	(2,756,161)
<i>Fund Balance Beginning of Year</i>	822,891	822,891	822,891	0
Prior Year Encumbrances Appropriated	404,329	404,329	404,329	0
<i>Fund Balance (Deficit) End of Year</i>	\$1,433,817	\$1,433,817	(\$1,322,344)	(\$2,756,161)

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, 2012

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues				
Charges for Services	\$570,000	\$570,000	\$721,415	\$151,415
Expenditures				
Current:				
Security of Persons and Property	397,637	397,637	202,843	194,794
Debt Service:				
Principal Retirement	943	943	943	0
Interest and Fiscal Charges	70	70	70	0
Total Debt Service	1,013	1,013	1,013	0
<i>Total Expenditures</i>	398,650	398,650	203,856	194,794
<i>Excess of Revenues Over Expenditures</i>	171,350	171,350	517,559	346,209
Other Financing Uses				
Transfers Out	(1,000,000)	(1,000,000)	(1,000,000)	0
<i>Net Change in Fund Balance</i>	(828,650)	(828,650)	(482,441)	346,209
<i>Fund Balance Beginning of Year</i>	1,301,324	1,301,324	1,301,324	0
<i>Fund Balance End of Year</i>	\$472,674	\$472,674	\$818,883	\$346,209

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, 2012

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
Intergovernmental	\$3,585,826	\$3,585,826	\$1,978,102	(\$1,607,724)
Charges for Services	6,527	6,527	4,350	(2,177)
Other	36,457	36,457	103,889	67,432
<i>Total Revenues</i>	3,628,810	3,628,810	2,086,341	(1,542,469)
Expenditures				
Current:				
Community Development	5,207,090	5,207,090	2,584,346	2,622,744
<i>Net Change in Fund Balance</i>	(1,578,280)	(1,578,280)	(498,005)	1,080,275
<i>Fund Deficit Beginning of Year</i>	(2,553,991)	(2,553,991)	(2,553,991)	0
Prior Year Encumbrances Appropriated	2,342,597	2,342,597	2,342,597	0
<i>Fund Deficit End of Year</i>	<u>(\$1,789,674)</u>	<u>(\$1,789,674)</u>	<u>(\$709,399)</u>	<u>\$1,080,275</u>

See accompanying notes to the basic financial statements

City of East Cleveland, Ohio

Statement of Fund Net Position

Enterprise Funds

December 31, 2012

	Business-Type Activities		
	Water	Sewer	Total
Assets			
<i>Noncurrent Assets:</i>			
<i>Capital Assets:</i>			
Nondepreciable Capital Assets	\$275,287	\$0	\$275,287
Depreciable Capital Assets, Net	330,628	430,672	761,300
<i>Total Noncurrent Assets</i>	<u>605,915</u>	<u>430,672</u>	<u>1,036,587</u>
Liabilities			
<i>Current Liabilities:</i>			
Interfund Payable	245,597	493,402	738,999
OPWC Loans Payable	46,970	0	46,970
<i>Total Current Liabilities</i>	<u>292,567</u>	<u>493,402</u>	<u>785,969</u>
<i>Long-Term Liabilities:</i>			
OPWC Loans Payable	180,905	0	180,905
<i>Total Liabilities</i>	<u>473,472</u>	<u>493,402</u>	<u>966,874</u>
Net Position			
Net Investment in Capital Assets	605,915	430,672	1,036,587
Unrestricted (Deficit)	(473,472)	(493,402)	(966,874)
<i>Total Net Position (Deficit)</i>	<u>\$132,443</u>	<u>(\$62,730)</u>	<u>\$69,713</u>

See accompanying notes to the basic financial statements

City of East Cleveland, Ohio
*Statement of Revenues,
Expenses and Changes in Fund Net Position
Enterprise Funds
For the Year Ended December 31, 2012*

	Business-Type Activities		
	Water	Sewer	Total
Operating Revenues			
Charges for Services	\$845	\$70,785	\$71,630
Miscellaneous	39,613	13,272	52,885
<i>Total Operating Revenues</i>	<u>40,458</u>	<u>84,057</u>	<u>124,515</u>
Operating Expenses			
Personal Services	61	0	61
Depreciation	8,019	1,464	9,483
Other	18	18	36
<i>Total Operating Expenses</i>	<u>8,098</u>	<u>1,482</u>	<u>9,580</u>
<i>Income Before Capital Contributions and Transfers</i>	32,360	82,575	114,935
Capital Contributions	520,559	0	520,559
Transfers In	46,970	0	46,970
<i>Change in Net Position</i>	599,889	82,575	682,464
<i>Net Deficit Beginning of Year</i>	<u>(467,446)</u>	<u>(145,305)</u>	<u>(612,751)</u>
<i>Net Position (Deficit) End of Year</i>	<u><u>\$132,443</u></u>	<u><u>(\$62,730)</u></u>	<u><u>\$69,713</u></u>

See accompanying notes to the basic financial statements

City of East Cleveland, Ohio
Statement of Cash Flows
Enterprise Funds
For the Year Ended December 31, 2012

	Business-Type Activities		
	Water	Sewer	Total
Increase (Decrease) in Cash and Cash Equivalents			
Cash Flows from Operating Activities			
Cash Received from Customers	\$845	\$70,785	\$71,630
Other Cash Receipts	39,613	13,272	52,885
Cash Payments to Employees for Services	(61)	0	(61)
Cash Payments for Goods and Services	(484)	(48,904)	(49,388)
<i>Net Cash Provided by Operating Activities</i>	<u>39,913</u>	<u>35,153</u>	<u>75,066</u>
Cash Flows from Noncapital Financing Activities			
Principal Paid on OPWC Loans	(46,970)	0	(46,970)
Advances In	245,597	493,402	738,999
Advances Out	(339,411)	(528,555)	(867,966)
Transfers In	46,970	0	46,970
<i>Net Cash Used for Noncapital Financing Activities</i>	<u>(93,814)</u>	<u>(35,153)</u>	<u>(128,967)</u>
Cash Flows from Capital and Related Financing Activities			
Acquisition of Capital Assets	(466,658)	0	(466,658)
Capital Grants	520,559	0	520,559
<i>Net Cash Provided by Capital and Related Financing Activities</i>	<u>53,901</u>	<u>0</u>	<u>53,901</u>
<i>Net Increase in Cash and Cash Equivalent</i>	0	0	0
<i>Cash and Cash Equivalents Beginning of Year</i>	<u>0</u>	<u>0</u>	<u>0</u>
<i>Cash and Cash Equivalents End of Year</i>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>

(continued)

City of East Cleveland, Ohio
Statement of Cash Flows
Enterprise Funds (continued)
For the Year Ended December 31, 2012

	Business-Type Activities		
	Water	Sewer	Total
Reconciliation of Operating Income to Net Cash Provided by Operating Activities			
Operating Income	\$32,360	\$82,575	\$114,935
Adjustments:			
Depreciation	8,019	1,464	9,483
Decrease in Liabilities:			
Accounts Payable	(466)	0	(466)
Contracts Payable	0	(36,203)	(36,203)
Accrued Wages	0	(6,031)	(6,031)
Compensated Absences Payable	0	(4,672)	(4,672)
Intergovernmental Payable	0	(1,980)	(1,980)
<i>Total Adjustments</i>	<u>7,553</u>	<u>(47,422)</u>	<u>(39,869)</u>
<i>Net Cash Provided by Operating Activities</i>	<u>\$39,913</u>	<u>\$35,153</u>	<u>\$75,066</u>

See accompanying notes to the basic financial statements

City of East Cleveland, Ohio
Statement of Fiduciary Assets and Liabilities
Agency Funds
December 31, 2012

Assets	
Equity Pooled in Cash and Cash Equivalents	<u><u>\$253,326</u></u>
Liabilities	
Deposits Held and Due to Others	<u><u>\$253,326</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, 2012

Note 1 – Description of the City and Reporting Entity

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

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

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

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

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

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

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

Reporting Entity

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

City of East Cleveland, Ohio
Notes to the Basic Financial Statements
For The Year Ended December 31, 2012

legislative services. The City of Cleveland provides water to the residents of the City. The City of Cleveland bills the customers directly. The City contracts with the Northeast Ohio Regional Sewer District to provide sewage treatment for the City; however, the City still owns and maintains the sewer lines.

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

Note 2 – Summary of Significant Accounting Policies

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

Basis of Presentation

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

Government-wide Financial Statements The statement of net position and the statement of activities display information about the City as a whole. These statements include the financial activities of the primary government, except for fiduciary funds. The statements distinguish between those activities of the City that are governmental and those that are considered business-type activities.

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

Fund Financial Statements During the year, the City segregates transactions related to certain City functions or activities in separate funds in order to aid financial management and to demonstrate legal compliance. Fund financial statements are designed to present financial information of the City at this more detailed level. The focus of governmental and enterprise fund financial statements is on major funds. Each

City of East Cleveland, Ohio
Notes to the Basic Financial Statements
For The Year Ended December 31, 2012

major fund is presented in a separate column. Nonmajor funds are aggregated and presented in a single column. Fiduciary funds are reported by type.

Fund Accounting

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

Enterprise Funds Enterprise funds may be used to account for any activity for which a fee is charged to external users for goods or services. The following are the City's major enterprise funds:

Water Fund The water fund accounts for revenues generated from the charges for distribution of water to the residential and commercial users of the City.

Sewer Fund The sewer fund accounts for sewer services to residential and commercial users in the City. The costs of providing these services are financed primarily through user charges.

Fiduciary Funds Fiduciary fund reporting focuses on net 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

City of East Cleveland, Ohio
Notes to the Basic Financial Statements
For The Year Ended December 31, 2012

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.

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, all proprietary funds are 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 these funds 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 proprietary activities.

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 8). Revenue from grants, entitlements and donations is recognized in the year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the year when use is first permitted, matching requirements, in which the City must provide local

City of East Cleveland, Ohio
Notes to the Basic Financial Statements
For The Year Ended December 31, 2012

resources to be used for a specified purpose, and expenditure requirements, in which the resources are provided to the City on a reimbursement basis. On the modified accrual basis, revenue from nonexchange transactions must also be available before it can be recognized.

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

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

In addition to liabilities, the statements of financial position report a separate section for deferred inflows of resources. Deferred inflows of resources represent an acquisition of net position that applies to a future period and will not be recognized as an inflow of resources (revenue) until that time. For the City, deferred inflows of resources include property taxes and unavailable revenue. Property taxes represent amounts for which there is an enforceable legal claim as of December 31, 2012, but which were levied to finance year 2013 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 2012 amounted to \$514.

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, 2012, 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.

City of East Cleveland, Ohio
Notes to the Basic Financial Statements
For The Year Ended December 31, 2012

Inventory

Inventories are presented at cost on a first-in, first-out basis and are expended/expensed when used. Inventory consists of expendable materials and supplies held for consumption, using the consumption method.

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. Capital assets utilized by the enterprise funds are reported both in the business-type activities column of the government-wide statement of net position and in the respective funds.

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

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

<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, storm sewers, and sewer lines and includes infrastructure acquired prior to December 31, 1980.

Interfund Balances

On fund financial statements, receivables and payables resulting from short-term interfund loans are classified as "interfund receivables/payables." These amounts are eliminated in the governmental and business-type activities columns of the statement of net position, except for any net residual amounts due between governmental and business-type activities, which are presented as internal balances.

Compensated Absences

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

City of East Cleveland, Ohio
Notes to the Basic Financial Statements
For The Year Ended December 31, 2012

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

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

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

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.

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

City of East Cleveland, Ohio
Notes to the Basic Financial Statements
For The Year Ended December 31, 2012

resolution) it employed to previously commit those amounts. In contrast to fund balance that is restricted by enabling legislation, committed fund balance classification may be redeployed for other purposes with appropriate due process. Constraints imposed on the use of committed amounts are imposed by City Council, separate from the authorization to raise the underlying revenue; therefore, compliance with these constraints is not considered to be legally enforceable. Committed fund balance also incorporates contractual obligations to the extent that existing resources in the fund have been specifically committed for use in satisfying those contractual requirements.

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

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

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

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 water and sewer services. Operating expenses are necessary costs incurred to provide the good or service that is the primary activity of the fund. Revenues and expenses which do not meet this definition are reported as non-operating.

Internal Activity

Transfers between governmental and business-type activities on the government-wide statements are reported in the same manner as general revenues. Transfers between governmental activities are eliminated on the government-wide financial statements. Internal allocations of overhead expenses from one function to

City of East Cleveland, Ohio
Notes to the Basic Financial Statements
For The Year Ended December 31, 2012

another or within the same function are eliminated on the statement of activities. Payments for interfund services provided and used are not eliminated.

Exchange transactions between funds are reported as revenues in the seller funds and as expenditures/expenses in the purchaser funds. Flows of cash or goods from one fund to another without a requirement for repayment are reported as interfund transfers. Interfund transfers are reported as other financing sources/uses in governmental funds and after non-operating revenues/expenses in proprietary funds. Repayments from funds responsible for particular expenditures/expenses to the funds that initially paid for them are not presented on the financial statements.

Extraordinary and Special Items

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

The City is reporting an extraordinary item during 2012 for Cleveland Clinic Foundation settlement in the amount of \$3,000,000. For more information see Note 8, Receivables.

Estimates

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

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, 2012

Note 3 – Changes in Accounting Principles

For 2012, the City has implemented Governmental Accounting Standard Board (GASB) Statement No. 60, “Accounting and Financial Reporting for Service Concession Arrangements,” Statement No. 62, “Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989, FASB and AICPA Pronouncements,” Statement No. 63, “Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position,” Statement No. 64, “Derivative Instruments: Application of Hedge Accounting Termination Provisions – an amendment of GASB Statement No. 53,” Statement No. 65, “Items Previously Reported as Assets and Liabilities” and Statement No. 66, “Technical Corrections–2012—an amendment of GASB Statements No. 10 and No. 62.”

GASB Statement No. 60 improves financial reporting by addressing issues related to service concession arrangements, which are a type of public-private or public-public partnership. The implementation of this statement did not result in any change in the City’s financial statements.

GASB Statement No. 62 incorporates into GASB’s authoritative literature certain FASB and AICPA pronouncements issued on or before November 30, 1989. The implementation of this statement did not result in any change in the City’s financial statements.

GASB Statement No. 63 provides guidance for reporting deferred outflows of resources, deferred inflows of resources, and net position in a statement of financial position and related note disclosures. These changes were incorporated in the City’s financial statements; however, there was no effect on beginning net position/fund balance.

GASB Statement No. 64 clarifies whether an effective hedging relationship continues after the replacement of a swap counterparty or a swap counterparty's credit support provider. This Statement sets forth criteria that establish when the effective hedging relationship continues and hedge accounting should continue to be applied. The implementation of this statement did not result in any change in the City’s financial statements.

GASB Statement No. 65 properly classifies certain items that were previously reported as assets and liabilities as deferred outflows of resources or deferred inflows of resources or recognizes certain items that were previously reported as assets and liabilities as outflows of resources (expenses or expenditures) or inflows of resources (revenues). These changes were incorporated in the City’s financial statements; however, there was no effect on beginning net position/fund balance.

GASB Statement No. 66 resolves conflicting accounting and financial reporting guidance that could diminish the consistency of financial reporting and thereby enhance the usefulness of the financial reports. The implementation of this statement did not result in any change in the City’s financial statements.

Note 4 – Compliance and Accountability

Compliance

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

City of East Cleveland, Ohio
Notes to the Basic Financial Statements
For The Year Ended December 31, 2012

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

Fund	Estimated Revenues Plus Carryover Balance	Original Appropriations	Excess
Governmental Funds			
Demographic Employment Opportunities	\$1,669	\$148,594	(\$146,925)
Neighborhood Support Program - 1	968,631	1,566,690	(598,059)
Neighborhood Support Program - 3	0	1,068,142	(1,068,142)

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

Fund	Final Estimated Revenues Plus Carryover Balance	Final Appropriations	Excess
Governmental Funds			
Demographic Employment Opportunities	\$1,669	\$148,594	(\$146,925)
Neighborhood Support Program - 1	968,631	1,566,690	(598,059)
Neighborhood Support Program - 3	0	1,068,142	(1,068,142)

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	
Courts Community Service	\$3,190
Domestic Violence	122,765
D.A.R.E.	127
Neighborhood Support Program	44,257
Victims of Crimes Act	73,651
Community Development	23,047
JAG Police	6,179
Older Americans	505,175
Enterprise Funds	
Water	245,597
Sewer	493,402

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			
Police Accrued Liability			
Security of People and Property			
Personal Services	\$94,604	\$95,039	(\$435)
Law Enforcement Block Grant			
Security of People and Property			
Personal Services	0	333,054	(333,054)

City of East Cleveland, Ohio
Notes to the Basic Financial Statements
For The Year Ended December 31, 2012

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

Fund	Actual Receipts Plus Unencumbered Cash	Appropriations	Excess
Governmental Funds			
Demographic Employee Opportunities	\$1,669	\$148,594	(\$146,925)
FEMA Grant	27,644	132,628	(104,984)
Neighborhood Support Program - 1	430,558	1,566,690	(1,136,132)
Wall of Fame	1,011	1,012	(1)
Neighborhood Support Program - 3	242,443	1,068,142	(825,699)
JAG Police	(6,179)	25,000	(31,179)
H.S. Brown Renovation	0	2,320	(2,320)

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/net position as of December 31, 2012:

Fund	Amount
General Fund	\$1,722,922
Special Revenue Funds	
Older Americans	501,326
Community Development	577,541
Domestic Violence	124,201
Neighborhood Support Progra	130,549
DARE	127
Victims of Crimes Act	73,984
Courts Community Service	3,190
Neighborhood Support Progra	6,179
JAG Police	9,295
Enterprise Funds	
Sewer	62,730

The general fund concluded 2012 with a deficit fund balance of \$1,722,922. The City has experienced a financial shortfall which has resulted in deficit spending in the general fund. The City is working on a plan to alleviate the financial shortfall. Starting in 2010, the City began aggressively collecting outstanding speeding tickets. The money is deposited into the general fund and then transferred to the deficit funds.

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

The sewer enterprise fund deficit resulted from expenses for contractual commitments exceeding revenues.

City of East Cleveland, Ohio
Notes to the Basic Financial Statements
For The Year Ended December 31, 2012

Note 5 – Fund Balances

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

Fund Balances	General	Emergency Medical Services	Community Development	Other Governmental Funds	Total
<u>Nonspendable:</u>					
Prepays	\$9,043	\$0	\$0	\$0	\$9,043
Inventory	8,121	0	940	3,365	12,426
Total Nonspendable	17,164	0	940	3,365	21,469
<u>Restricted for:</u>					
Street Improvements	0	0	0	340,464	340,464
Police Programs	0	0	0	460,850	460,850
Drug and Alcohol Enforcement	0	0	0	8,233	8,233
Parks and Recreation	0	0	0	693	693
Noise Abatement Award	0	0	0	26,289	26,289
School Crossing Guard Program	0	0	0	160,783	160,783
Special Projects Courts	0	0	0	578,080	578,080
Community Support Program	0	0	0	55,916	55,916
Special Purpose	0	0	0	4,504	4,504
Demographic Employment Opportunitie	0	0	0	1,669	1,669
Court Computers	0	0	0	253,930	253,930
Strategic Master Plan	0	0	0	21,987	21,987
S.T.E.P. Project	0	0	0	27,497	27,497
Capital Improvements	0	0	0	303,670	303,670
HS Brown Renovations	0	0	0	2,320	2,320
Transfer Station Improvements	0	0	0	548,842	548,842
Debt Service Payments	0	0	0	12,504	12,504
Total Restricted	0	0	0	2,808,231	2,808,231
<u>Committed to:</u>					
Ambulance Services	0	909,460	0	0	909,460
Wall of Fame Costs	0	0	0	1,011	1,011
Total Committed	0	909,460	0	1,011	910,471
Unassigned (Deficit)	(1,740,086)	0	(578,481)	(849,089)	(3,167,656)
Total Fund Balances (Deficit)	(\$1,722,922)	\$909,460	(\$577,541)	\$1,963,518	\$572,515

City of East Cleveland, Ohio
Notes to the Basic Financial Statements
For The Year Ended December 31, 2012

Note 6 - Budgetary Basis of Accounting

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

1. Revenues are recorded when received in cash (budget) as opposed to when susceptible to accrual (GAAP).
2. Expenditures are recorded when paid in cash (budget) as opposed to when the liability is incurred (GAAP).
3. Encumbrances are treated as expenditures (budget) rather than as restricted, committed or assigned fund balance (GAAP).
4. Unrecorded cash represents amounts received but not reported by the City on the operating statements (budget), but which is reported on the GAAP basis operating statement.

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	(\$666,629)	(\$457,802)	(\$568,852)
Net Adjustment for Revenue Accruals	(354,367)	159,216	385,074
Unrecorded Cash	262,070	(180,745)	1,646
Net Adjustment for Expenditures Accruals	(1,039,136)	8,388	138,913
Principal Retirement	(364,200)	0	0
Encumbrances	(387,302)	(11,498)	(454,786)
Budget Basis	(\$2,549,564)	(\$482,441)	(\$498,005)

Note 7 – Deposits and Investments

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

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

Inactive deposits are public deposits that the Council has identified as not required for use within the current five year period of designation of depositories. Inactive deposits must either be evidenced by certificates of

City of East Cleveland, Ohio
Notes to the Basic Financial Statements
For The Year Ended December 31, 2012

deposit maturing not later than the end of the current period of designation of depositories, or by savings or deposit accounts including, but not limited to, passbook accounts.

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

Interim monies held by the City can be deposited or invested in the following securities:

1. United States Treasury bills, bonds, notes, or any other obligation or security issued by the United States Treasury, or any other obligation guaranteed as to principal and interest by the United States;
2. Bonds, notes, debentures, or any other obligation or security issued by any federal government agency or instrumentality including, but not limited to, the Federal National Mortgage Association, Federal Home Loan Bank, Federal Farm Credit Bank, Federal Home Loan Mortgage Corporation, Government National Mortgage Association, and Student Loan Marketing Association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;
3. Written repurchase agreements in the securities listed above;
4. Bonds and other obligations of the State of Ohio or Ohio local governments;
5. Time certificates of deposit or savings or deposit accounts including, but not limited to, passbook accounts;
6. No-load money market mutual funds consisting exclusively of obligations described in division (1) or (2) and repurchase agreements secured by such obligations;
7. The State Treasurer's investment pool (STAROhio);
8. Commercial paper and banker's acceptances if training requirements have been met.

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

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

Investments in stripped principal or interest obligations, reverse repurchase agreements, and derivatives are prohibited. The issuance of taxable notes for the purpose of arbitrage, the use of leverage, and short selling are also prohibited. Investments may only be made through specified dealers and institutions.

Deposits

Custodial Credit Risk Custodial credit risk for deposits is the risk that in the event of bank failure, the City will not be able to recover deposits or collateral securities that are in possession of an outside party. At year end, \$458,582 of the City's bank balance of \$1,218,361 was uninsured and uncollateralized. Although the securities were held by the pledging financial institutions' trust department and all statutory requirements for

City of East Cleveland, Ohio
Notes to the Basic Financial Statements
For The Year Ended December 31, 2012

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 8 - Receivables

Receivables at December 31, 2012, consisted primarily of municipal income taxes, property taxes, intergovernmental receivables arising from entitlements and shared revenues, and accounts (billings for user charged services, including unbilled utility services). All receivables are expected to be collected within one year except property taxes, income taxes and accounts receivable which have significant delinquencies and are expected to be collected over several years.

Property Taxes

Property taxes include amounts levied against all real, public utility and tangible personal property located in the City. Property tax revenue received during 2012 for real and public utility property taxes represents collections of the 2011 taxes.

2012 real property taxes are levied after October 1, 2012 on the assessed value as of January 1, 2012, the lien date. Assessed values are established by state law at 35 percent of appraised market value. 2012 real property taxes are collected in, and intended to finance, 2013.

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. 2012 public utility property taxes which became a lien December 31, 2011, are levied after October 1, 2012, and are collected in 2013 with real property taxes.

The full tax rate for all City operations for the year ended December 31, 2012, was \$12.70 per \$1,000 of assessed value. The assessed values of real and tangible personal property upon which 2012 property tax receipts were based are as follows:

Real Estate	
Residential/Agriculture	\$90,628,370
Commercial Industrial/Public Utility	46,228,590
Tangible Personal Property	
Public Utility	9,686,240
Total Valuation	<u><u>\$146,543,200</u></u>

City of East Cleveland, Ohio
Notes to the Basic Financial Statements
For The Year Ended December 31, 2012

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, 2012 and for which there is an enforceable legal claim. In governmental funds, the portion of the receivable not levied to finance 2012 operations is offset to deferred inflows of resources – property taxes. On an accrual basis, collectible delinquent property taxes have been recorded as a receivable and revenue, while on a modified accrual basis the revenue has been reported as deferred inflows of resources – unavailable revenue.

Income Taxes

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

Intergovernmental Receivables

A summary of intergovernmental receivables follows:

Intergovernmental Receivables	Amount
Governmental Activities	
CDBG/Home Program Grants	\$2,529,056
Local Government	682,057
Homestead and Rollback	146,691
Gasoline Tax	95,230
Other Grants	71,324
Local Law Enforcement Grant	58,734
Gasoline Cents per Gallon	47,498
COPS Hiring Recovery Grant	40,263
Permissive Tax	29,729
Auto License Tax	26,198
Estate Tax	24,296
Commercial Activity Tax	19,853
Public Utility Reimbursement	2,903
<i>Grand Total</i>	\$3,773,832

Accounts Receivable

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

City of East Cleveland, Ohio
Notes to the Basic Financial Statements
For The Year Ended December 31, 2012

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

During 2012, the City requested and received an advance on the future payments for a total of \$3,000,000 received from the Clinic. As of December 31, 2012, the City received \$6,000,000 of the \$7,800,000 from the Clinic.

Note 9 – Capital

Capital Leases

The City has capital leases for three Toshiba copiers, two leases with Metrolease for copiers, a lease for 10 police vehicles and three leases for copiers. Capital lease payments are reflected as debt service expenditures in various funds on the basic financial statements. The governmental equipment has been capitalized in the amount of \$445,177, the present value of the minimum lease payments at the inception of the leases.

Governmental Activities:	
Assets	
Vehicles	\$379,392
Equipment	65,785
<i>Total Capital Assets, Being Depreciated:</i>	445,177
Accumulated Depreciation	
Vehicles	347,274
Equipment	56,086
<i>Total Accumulated Depreciation</i>	403,360
<i>Governmental Activities Capital Assets, Net</i>	\$41,817

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, 2012.

Year	Amount
2013	\$59,417
2014	2,560
Total minimum lease payments	61,977
Less: Amount representing interest	(2,064)
Present Value of minimum lease payments	\$59,913

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 2012, the City paid rental costs of \$20,100. 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 2012, the City paid rental costs of \$11,180. The City must provide the lessor written notice at least 90 days prior to termination of the lease.

City of East Cleveland, Ohio
Notes to the Basic Financial Statements
For The Year Ended December 31, 2012

Note 10 - Capital Assets

Capital asset activity for the year ended December 31, 2012, was as follows:

	Balance 12/31/2011	Additions	Deductions	Balance 12/31/2012
Governmental Activities				
<i>Capital Assets not being Depreciated:</i>				
Land	\$920,260	\$0	\$0	\$920,260
Construction in Progress	0	280,218	0	280,218
<i>Total Capital Assets not being Depreciated</i>	<u>920,260</u>	<u>280,218</u>	<u>0</u>	<u>1,200,478</u>
<i>Capital Assets being Depreciated:</i>				
Buildings and Improvements	4,400,375	0	0	4,400,375
Equipment	3,118,604	18,900	0	3,137,504
Vehicles	4,269,378	0	(295,069)	3,974,309
Infrastructure	22,057,502	225,892	0	22,283,394
<i>Total Capital Assets being Depreciated</i>	<u>33,845,859</u>	<u>244,792</u>	<u>(295,069)</u>	<u>33,795,582</u>
<i>Less Accumulated Depreciation:</i>				
Buildings and Improvements	(3,336,676)	(50,902)	0	(3,387,578)
Equipment	(2,986,782)	(61,310)	799	(3,047,293)
Vehicles	(3,765,853)	(96,779)	294,270	(3,568,362)
Infrastructure	(7,091,465)	(363,068)	0	(7,454,533)
<i>Total Accumulated Depreciation</i>	<u>(17,180,776)</u>	<u>(572,059)</u>	<u>295,069</u>	<u>(17,457,766)</u>
Total Capital Assets being Depreciated, Net	<u>16,665,083</u>	<u>(327,267)</u>	<u>0</u>	<u>16,337,816</u>
Governmental Activities Capital Assets, Net	<u>\$17,585,343</u>	<u>(\$47,049)</u>	<u>\$0</u>	<u>\$17,538,294</u>
	Balance 12/31/2011	Additions	Deductions	Balance 12/31/2012
Business-Type Activities:				
<i>Capital Assets not being Depreciated:</i>				
Construction in Progress	\$0	\$275,287	\$0	\$275,287
<i>Capital Assets being Depreciated:</i>				
Equipment	99,110	0	0	99,110
Vehicles	203,994	0	0	203,994
Infrastructure	605,564	191,371	0	796,935
<i>Total Capital Assets being Depreciated</i>	<u>908,668</u>	<u>191,371</u>	<u>0</u>	<u>1,100,039</u>
<i>Less Accumulated Depreciation:</i>				
Equipment	(87,008)	(4,169)	0	(91,177)
Vehicles	(168,763)	(3,850)	0	(172,613)
Infrastructure	(73,485)	(1,464)	0	(74,949)
<i>Total Accumulated Depreciation</i>	<u>(329,256)</u>	<u>(9,483)</u>	<u>0</u>	<u>(338,739)</u>
Total Capital Assets being Depreciated, Net	<u>579,412</u>	<u>181,888</u>	<u>0</u>	<u>761,300</u>
Business-Type Activities Capital Assets, Net	<u>\$579,412</u>	<u>\$457,175</u>	<u>\$0</u>	<u>\$1,036,587</u>

City of East Cleveland, Ohio
Notes to the Basic Financial Statements
For The Year Ended December 31, 2012

Depreciation expense was charged to governmental functions as follows:

General Government	\$272,321
Security of Persons and Property	72,691
Leisure Time Activities	3,534
Basic Utility Services	110
Community Environment	3,518
Transportation	<u>219,885</u>
Total Depreciation Expense	<u><u>\$572,059</u></u>

Note 11 – Employee Benefits

Compensated Absences

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

Health Care Benefits

Kaiser Permanente provides medical/surgical coverage to eligible City employees. Employees are able to choose from two options with differing deductibles, co-pays and service options. The cost for option one HMO is \$582.55 per month for individual coverage and \$1,457.01 per month for family coverage. Option two is \$634 per month for individual coverage and \$1,585.72 per month for family coverage. Medical Mutual provides dental and vision coverage. The cost for dental coverage is \$19.56 for individual coverage and \$54.93 for family coverage. The cost for vision is \$7.26 for individual coverage and \$18.16 for family coverage.

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

Note 12 – Local Government Fund Notes

On December 28, 2005, the City, in accordance with Ohio Revised Code Section 118.17(C), issued \$2,913,600 in local government fund notes at 4.19 percent interest to eliminate deficit funds. The note proceeds were transferred to the older American, community development, and special purpose grant special revenue funds and to the sewer fund. The notes will be repaid with local government monies. A schedule of changes during 2012 follows:

City of East Cleveland, Ohio
Notes to the Basic Financial Statements
For The Year Ended December 31, 2012

	Outstanding 12/31/2011	Additions	(Reductions)	Outstanding 12/31/2012
Governmental Activities				
Local Government Fund Notes	\$775,885	\$0	(\$364,200)	\$411,685

Principal and interest requirements to retire the notes outstanding at December 31, 2012, are \$411,685 and \$19,075, respectively.

Note 13 – Long-Term Obligations

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

Debt Issue	Original Issue	Year of Maturity
Governmental Activities		
OPWC Loans:		
2003 Euclid Avenue Rehabilitation	\$2,951,444	2028
2006 Windermere/Idlewood/Knowles Road	977,988	2028
Intergovernmental Payable - City of Cleveland Heights	105,946	2025
Business-Type Activities		
OPWC Loans:		
1994 Water Main Project Phase I	393,740	2014
1997 Water Main Project Phase II	406,900	2017
2000 Brunswick Road Water Main Improvement Project	23,164	2019
2000 Forest Hills Water Main Project	25,442	2020
2008 Belmore Street Waterline Repair Project	102,014	2030

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

A schedule of changes in long-term obligations of the City during 2012 follows:

	Outstanding 12/31/2011	Additions	(Reductions)	Outstanding 12/31/2012	Due in One Year
Governmental Activities					
OPWC Loans:					
Euclid Avenue Rehabilitation	\$2,361,156	\$0	(\$147,572)	\$2,213,584	\$147,572
Windemere/ Idlewood/ Knowles Road	831,291	0	(48,899)	782,392	48,900
Total OPWC Loans	3,192,447	0	(196,471)	2,995,976	196,472
Capital Leases	146,935	0	(87,022)	59,913	57,446
Police and Fire Pension Liability	1,379,736	0	(35,358)	1,344,378	36,708
Compensated Absences	1,457,214	288,308	(123,454)	1,622,068	93,324
Total Governmental Activities	\$6,176,332	\$288,308	(\$442,305)	\$6,022,335	\$383,950
Business-Type Activities					
OPWC Loans:					
Water Main Project Phase I	\$49,219	\$0	(\$19,687)	\$29,532	\$19,687
Water Main Project Phase II	108,631	0	(19,750)	88,881	19,752
Brunswick Road Water Main Improvement Project	9,268	0	(1,160)	8,108	1,158
Forest Hills Water Main Project	10,814	0	(1,272)	9,542	1,272
Belmore Road Waterline Repair Project	96,913	0	(5,101)	91,812	5,101
Total OPWC Loans	274,845	0	(46,970)	227,875	46,970
Compensated Absences	4,672	0	(4,672)	0	0
Total Business-Type Activities	\$279,517	\$0	(\$51,642)	\$227,875	\$46,970

City of East Cleveland, Ohio
Notes to the Basic Financial Statements
For The Year Ended December 31, 2012

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

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

During 2012, the City repaid the OPWC loans for water lines in the general fund due to the discontinued operation of the water department. The debt is payable through 2030 and the total principal remaining to be paid on the debt is \$227,875. Principal paid for the current year was \$46,970.

The City's overall legal debt margin was \$15,387,036 at December 31, 2012.

Principal and interest requirements to retire long-term obligations outstanding at December 31, 2012, are as follows:

	Governmental Activities		Business-Type Activities	
	Police and Fire Liability		OPWC Loans	
	Principal	Interest	Principal	Principal
2013	\$36,708	\$58,404	\$196,472	\$46,970
2014	38,288	56,889	196,471	37,129
2015	39,936	53,660	196,471	27,283
2016	41,655	51,941	196,471	27,283
2017	43,449	50,148	196,471	17,401
2018-2022	246,965	221,017	982,356	31,006
2023-2027	304,909	163,073	982,356	25,503
2028-2032	376,456	91,526	48,908	15,300
2033-2035	216,012	13,828	0	0
Total	\$1,344,378	\$760,486	\$2,995,976	\$227,875

Note 14 – Defined Benefit Pension Plans

Ohio Public Employees Retirement System

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

City of East Cleveland, Ohio
Notes to the Basic Financial Statements
For The Year Ended December 31, 2012

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

Funding Policy – The Ohio Revised Code provides statutory authority for member and employer contributions and currently limits the employer contribution to a rate not to exceed 14 percent of covered payroll for state and local employer units. Member contribution rates, as set forth in the Ohio Revised Code, are not to exceed 10 percent of covered payroll for members in state and local divisions. For the year ended December 31, 2012, members in state and local classifications contributed 10.0 percent of covered payroll. Members in the state and local divisions may participate in all three plans. For 2012, member and employer contribution rates were consistent across all three plans.

The City's 2012 contribution rate was 14.0 percent. The portion of employer contributions used to fund pension benefits is net of postemployment health care benefits. The portion of employer contribution allocated to health care for members in the Traditional Plan was 4.0 percent for the year ended December 31, 2012. The portion of employer contributions allocated to health care for members in the Combined Plan was 6.05 percent for the year ended December 31, 2012. Employer contribution rates are actuarially determined.

The City's required contributions for pension obligations to the Traditional and Combined Plans for the years ended December 31, 2012, 2011, and 2010 was \$407,961, \$445,797, and \$391,307, respectively. For 2012, 95.92 percent has been contributed with the balance being reported as an intergovernmental payable. The full amount has been contributed for 2011 and 2010. Contributions to the Member-Directed Plan for 2012 were \$4,214 made by the City and \$3,514 made by the plan members.

Ohio Police and Fire Pension Fund

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

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

The OP&F Pension Fund is authorized by the Ohio Revised Code to allocate a portion of the employer contributions to retiree health care benefits. The portion of employer contributions used to fund pension benefits was 12.75 percent of covered payroll for police officers and 17.25 percent of covered payroll for firefighters. The City's contributions to OP&F for police and firefighters were \$317,618 and \$472,885 for the year ended December 31, 2012, \$278,181 and \$442,952 for the year ended December 31, 2011, and \$269,071 and \$484,394 for the year ended December 31, 2010, respectively. For 2012, 95.79 and 96.5 percent for police and firefighters, respectively, is being reported as an intergovernmental payable. The full amount has been contributed for 2011 and 2010.

City of East Cleveland, Ohio
Notes to the Basic Financial Statements
For The Year Ended December 31, 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, 2012, the unfunded liability of the City was \$1,344,378 payable in semi-annual payments through the year 2035. This is an accounting liability of the City which will not vary.

Note 15 – Postemployment Benefits

Ohio Public Employees Retirement System

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

OPERS maintains a cost-sharing multiple-employer defined benefit postemployment 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 postemployment health care coverage. The plan includes a medical plan, prescription drug program and Medicare Part B premium reimbursement.

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

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

Funding Policy – The postemployment 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 postemployment health care through their contributions to OPERS. A portion of each employer’s contribution to the traditional or combined plans is set aside for the funding of postemployment health care.

Employer contribution rates are expressed as a percentage of the covered payroll of active members. In 2012, state and local government employers contributed at a rate of 14.0 percent of covered payroll. These are the maximum employer contribution rates permitted by the Ohio Revised Code.

Each year, the OPERS Retirement Board determines the portion of the employer contribution rate that will be set aside for funding of postemployment health care benefits. The portion of employer contributions allocated to health care for members in the Traditional Plan was 4.0 percent for the year ended December 31, 2012. The portion of employer contributions allocated to health care for members in the Combined Plan was 6.05 percent for the year ended December 31, 2012. Effective January 1, 2013, the portion of employer contributions allocated to health care was lowered to 1 percent for both plans, as recommended by the OPERS Actuary.

City of East Cleveland, Ohio
Notes to the Basic Financial Statements
For The Year Ended December 31, 2012

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

The City's contributions allocated to fund postemployment health care benefits for the years ended December 31, 2012, 2011 and 2010 were \$163,184, \$178,319, and \$253,198, respectively. For 2012, 95.92 percent has been contributed with the balance being reported as an intergovernmental payable. The full amount has been contributed for 2011 and 2010.

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

Ohio Police and Fire Pension Fund

Plan Description – The City contributes to the Ohio Police and Fire Pension Fund (OP&F) sponsored health care program, a cost-sharing multiple-employer defined postemployment 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 Postemployment Benefit (OPEB) as described in GASB Statement No. 45.

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

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

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 the year ended December 31, 2012, the employer contribution allocated to the health care plan was 6.75 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).

City of East Cleveland, Ohio
Notes to the Basic Financial Statements
For The Year Ended December 31, 2012

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

The City's contributions to OP&F which were allocated to fund postemployment health care benefits for police and firefighters were \$168,151 and \$185,042 for the year ended December 31, 2012, \$147,272 and \$173,329 for the year ended December 31, 2011, and \$142,449 and \$189,546 for the year ended December 31, 2010. For 2012, 95.79 and 96.5 percent for police and firefighters, respectively, is being reported as an intergovernmental payable. The full amount has been contributed for 2011 and 2010.

Note 16 – Contingencies

Grants

The City receives financial assistance from federal and state agencies in the form of grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and is subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the general fund or other applicable funds. However, in the opinion of management, any such disallowed claims will not have a material adverse effect on the overall financial position of the City at December 31, 2012.

Litigation

The City of East Cleveland is a party to legal proceedings. Any potential settlements that are considered material and are considered probable of occurring are properly recorded as accounts payable in the financial statements. The City management is of the opinion that the ultimate disposition of all other claims and legal proceedings will not have a material effect, if any, on the financial condition of the City.

Note 17 – Risk Management

The City 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 2012, the City contracted with Scottsdale Indemnity Company for blanket building and business personal property general liability insurance with \$20,720,662 coverage.

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

The City is self-insured for vehicle liability coverage. The City accounts for vehicle claims in the general fund. There are two outstanding claims at December 31, 2012; however, neither was settled by year-end, so there is no claims liability reported for 2012.

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

City of East Cleveland, Ohio
Notes to the Basic Financial Statements
For The Year Ended December 31, 2012

Note 18 – Interfund Transactions

Interfund Balances

Interfund balances at December 31, 2012 consisted of the following:

Interfund Payable	Interfund Receivable		Total
	Emergency Medical Services	Other Governmental Funds	
Major Funds:			
General Fund	\$828,735	\$368,377	\$1,197,112
Community Development	0	73,868	73,868
Other Governmental Funds	0	755,344	755,344
Total Governmental Funds	<u>828,735</u>	<u>1,197,589</u>	<u>2,026,324</u>
Enterprise Funds:			
Water	0	245,597	245,597
Sewer	0	493,402	493,402
Total Enterprise Funds	<u>0</u>	<u>738,999</u>	<u>738,999</u>
Grand Total	<u><u>\$828,735</u></u>	<u><u>\$1,936,588</u></u>	<u><u>\$2,765,323</u></u>

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

Interfund Transfers

Interfund transfers at December 31, 2012 consisted of \$31,000 from the general fund to School Crossing Guard special revenue fund to support its activity and \$46,970 from the general fund to water enterprise fund for an OPWC loan payment. There was also a \$1,000,000 transferred from emergency medical services major special revenue fund to general fund to support the emergency medical program in the general fund.

Note 19 – Significant Commitments

Contractual Commitments

At December 31, 2012, the City’s significant contractual commitments consisted of:

Project	Contract Amount	Amount Paid	Remaining on Contract
Wymore Avenue Water Main and Concrete Paving Project	\$542,802	\$471,588	\$71,214
Noble Water Main Project	385,808	275,287	110,521
2012 Pavement Reconstruction of East 134th Street	245,402	225,892	19,510
Total	<u><u>\$1,174,012</u></u>	<u><u>\$972,767</u></u>	<u><u>\$201,245</u></u>

The amounts of \$672,221 and \$12,257 in contracts and retainage payable, respectively, have been capitalized.

City of East Cleveland, Ohio
Notes to the Basic Financial Statements
For The Year Ended December 31, 2012

Encumbrances

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

Governmental Funds:		Proprietary Funds:	
General Fund	\$387,302	Water	\$52,749
Emergency Medical Services	11,498		
Community Development	454,786		
Other Governmental Funds	75,283		
 Total Governmental Funds	 \$928,869		

Note 20 – Fiscal Emergency

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

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

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

Note 21 – Subsequent Event

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

**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, the business-type activities, each major fund, and the aggregate remaining fund information of the City of East Cleveland, Ohio (the "City"), as of and for the year ended December 31, 2012, and the related notes to the financial statements, which collectively comprise the City's basic financial statements and have issued our report thereon dated October 30, 2013, wherein we noted the City adopted *GASB Statement Nos. 63 and 65*, as disclosed in Note 3. We also noted the City was placed in fiscal emergency effective October 9, 2012, and incurred an operating loss that raises substantial doubt about its ability to continue as a going concern.

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 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 to be material weaknesses: items 2012-01 through 2012-03.

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City's financial statements are free 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 as items 2012-04 through 2012-08.

City's Response to Findings

The City's responses to the findings identified in our audit are described in the accompanying schedule of findings. The City's responses were not subject to 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.

Cuni & Paricki, Inc.

Cleveland, Ohio
October 30, 2013

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

Honorable Mayor and
Members of City Council
City of East Cleveland

Report on Compliance for Each Major Federal Program

We have audited the City of East Cleveland, Ohio's (the "City") compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the City's major federal programs for the year ended December 31, 2012. The City's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings.

Management's Responsibility

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

Auditor's Responsibility

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

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

Opinion on Each Major Federal Program

In our opinion, the City complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended December 31, 2012.

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

Other Matters

The results of our auditing procedures disclosed instances of noncompliance, which are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying schedule of findings as items 2012-09 and 2012-10.

The City's responses to the noncompliance findings identified in our audit are described in the accompanying schedule of findings. The City's responses were not subject to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on them.

Report on Internal Control over Compliance

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

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

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

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.

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

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

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City as of and for the year ended December 31, 2012, and the related notes to the financial statements, which collectively comprise City's basic financial statements wherein we noted the City adopted *GASB Statement Nos. 63 and 65* as disclosed in Note 3. We also noted the City was placed in fiscal emergency effective October 9, 2012, and incurred an operating loss that raises substantial doubt about its ability to continue as a going concern. We issued our report thereon dated October 30, 2013, which contained unmodified opinions on those financial statements. 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.

Cioni & Panichi, Inc.

Cleveland, Ohio
October 30, 2013

City of East Cleveland

Schedule of Expenditures of Federal Awards

For the Year Ended December 31, 2012

<u>Federal Grantor/Pass-Through Grantor/Program or Cluster Title</u>	<u>Federal CFDA Number</u>	<u>Federal Expenditures</u>
U.S. Department of Health and Human Services:		
Passed Through Western Reserve Area on Aging:		
Older Americans Title III, Part B – Grants for Supportive Services and Senior Centers	93.044	\$ 24,788
Older Americans Title III, Part C – Nutrition Services	93.045	<u>33,500</u>
Total U.S. Department of Health and Human Services		<u>58,288</u>
U.S. Department of Justice:		
Passed Through Office of Community Oriented Policing Services:		
COPS Hiring Recovery Program (CHRP)	16.710	109,491
Passed Through Office of Justice Programs:		
Recovery Act – Justice Assistance Grant (JAG)	16.804	18,904
Passed Through Office of Victims of Crime:		
Victims of Crime Act Grant (VOCA)	16.575	36,410
State Victims Assistance Act (SVAA)	16.575	<u>12,184</u>
Total U.S. Department of Justice		<u>176,989</u>
U.S. Department of Housing and Urban Development:		
Direct Programs:		
Community Development Block Grant, Entitlement Program	14.218	1,116,575
Home Investment Partnership Program	14.239	152,995
Passed Through Office of Community Planning and Development:		
Community Development Block Grant/State's Program & Non-Entitlement Grants in Hawaii (State Administered Small Cities Program)	14.228	<u>533,165</u>
Total U.S. Department of Housing and Urban Development		<u>1,802,735</u>
Total Expenditures of Federal Awards		\$ <u>2,038,012</u>

The accompanying notes are an integral part of this schedule

City of East Cleveland

Notes to the Schedule of Expenditures of Federal Awards

For the Year Ended December 31, 2012

Note 1 – Summary of Significant Accounting Policies

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

Note 2 – Subrecipients

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

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

City of East Cleveland, Ohio

Schedule of Findings

For the Year Ended December 31, 2012

1. Summary of Auditor's Results

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

City of East Cleveland, Ohio

Schedule of Findings (continued)

For the Year Ended December 31, 2012

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

2012-01 – Material weakness – audit adjustments

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

The following audit adjustments were made to the financial statements:

- Adjusted accounts payable to actual at December 31, 2012.
- Increased accounts payable to properly report litigation settlements.
- Adjusted income tax receivable to remove the uncollectible portion from the receivable balance as estimated by R.I.T.A.

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

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

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

2012-02 – Material weakness – capital assets

During our procedures performed over the City's capital assets, it was noted that the cost and accumulated depreciation totals in the client's system do not tie to the amounts reported in the City's 2012 financial statements.

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

City of East Cleveland

Schedule of Findings (continued)

For the Year Ended December 31, 2012

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

2012-03 – Material weakness – maintaining payroll authorization forms

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

During a review of 40 employees selected for testing, we noted 3 instances in which an approved payroll authorization form could not be located and 9 instances in which an approved timecard could not be located. These exceptions may result in employees being compensated in excess of the approved amount.

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

2012-04 – Material noncompliance

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

The following funds had deficit cash balances at December 31, 2012:

Governmental Funds:

General Fund	\$ 1,197,112
Older Americans	505,175
Courts Community Service	3,190
Community Development Block Grant / Home	73,868
Domestic Violence	122,766
D.A.R.E.	127
Victims of Crimes Act	73,651
JAG Police	6,179
Neighborhood Stabilization Program - 1	44,257

Enterprise Funds:

Water	265,597
Sewer	493,402

City of East Cleveland

Schedule of Findings (continued)

For the Year Ended December 31, 2012

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

2012-05 – Material noncompliance

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 Auditor files a certificate that the total appropriations from each fund do not exceed the total official estimate or amended official estimate.

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

	<u>Original Estimated Resources Plus Carryover Balances</u>	<u>Original Appropriations</u>	<u>Excess</u>
Governmental Funds			
<i>Special Revenue Funds:</i>			
Community Development Block Grant	\$ 3,417,416	\$ 5,207,090	\$ 1,789,674
Demographic Employment Opportunities Program	1,669	148,594	146,925
Neighborhood Stabilization Program - 1	968,631	1,566,690	598,059
Victims of Crimes Act	75,018	78,760	3,742
Neighborhood Stabilization Program - 3	-	1,068,142	1,068,142

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>			
Community Development Block Grant	\$ 3,417,416	\$ 5,207,090	\$ 1,789,674
Demographic Employment Opportunities	1,669	148,594	146,925
Neighborhood Stabilization Program - 1	968,631	1,566,690	598,059
Victims of Crimes Act	75,018	78,760	3,742
Neighborhood Stabilization Program - 3	-	1,068,142	1,068,142

City of East Cleveland

Schedule of Findings (continued)

For the Year Ended December 31, 2012

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

2012-06 – Material noncompliance

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

At December 31, 2012, 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>
General Fund:			
General Government:			
Mayor:			
Personal Services	\$ 270,298	\$ 291,107	\$ 20,809
Materials and Supplies	4,518	11,280	6,762
Contractual Services	1,588	1,599	11
Other Expenditures	-	1,695	1,695
Law Director:			
Personal Services	281,332	318,523	37,191
Contractual Services	13,047	65,422	52,375
Other Expenditures	1,397	1,891	494
Tax Department:			
Personal Services	-	4,996	4,996
Central Services:			
Personal Services	587,633	1,147,154	559,521
Materials and Supplies	11,590	17,799	6,209
Contractual Services	622,302	1,022,891	400,589
Capital Outlay	-	4,978	4,978
Other Expenditures	-	204,600	204,600
Security of Persons and Property:			
Police Department:			
Personal Services	5,038,335	5,203,511	165,176
Contractual Services	47,350	116,431	69,081
Materials and Supplies	119,336	219,967	100,631
Other	6,663	57,005	50,342

City of East Cleveland

Schedule of Findings (continued)

For the Year Ended December 31, 2012

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

2012-06 – Material noncompliance (continued)

<u>Fund/Function</u>	<u>Appropriations</u>	<u>Expenditure Plus Encumbrances</u>	<u>Excess</u>
Human Resources:			
Contractual Services	2,127	42,774	40,647
Fire Department:			
Personal Services	3,180,259	4,649,626	1,469,367
Materials and Supplies	23,113	68,462	45,349
Contractual Services	-	286	286
Parking Violation:			
Personal Services	27,284	29,590	2,306
Special Revenue Funds:			
Police Accrued Liability:			
Personal Services	94,604	95,039	435
VOCA:			
Personal Services	53,205	59,053	5,848
Other Expenditures	6,823	12,642	5,819
Parks and Recreation:			
Personal Services	215,758	229,054	13,296
Materials and Supplies	9,929	21,595	11,666
Contractual Services	2,790	34,760	31,970
Other Expenditures	147	3,079	2,932
Capital Outlay	46	991	945
Street Lighting:			
Materials and Supplies	1,283	1,341	58
Contractual Services	131,707	193,839	62,132
Refuse Collection:			
Contractual Services	863,706	952,135	88,429
Law Enforcement Block Grant:			
Personal Services	-	333,054	333,054

City of East Cleveland

Schedule of Findings (continued)

For the Year Ended December 31, 2012

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

2012-06 – Material noncompliance (continued)

Capital Projects Funds:

Helen S. Brown:

Personal Services	310,581	313,175	2,594
Materials and Supplies	5,276	26,690	21,414
Contractual Services	30,415	51,597	21,182
Other Expenditures	206	4,223	4,017
Capital Outlay	32	649	617

Enterprise Funds:

Water Fund:

Personal Services	-	61	61
Contractual Services	120,537	477,277	356,740
Other Expenditures	-	18	18

Sewer Fund:

Personal Services	20,293	36,202	15,909
Contractual Services	-	18	18

2012-07 – Material noncompliance

Ohio Revised Code § 5705.36(A)(2) allows all subdivisions to request increased amended certificates of estimated resources and reduced certificates upon determination by the Fiscal Officer that revenue to be collected will be greater or less than the amount in the official certificate of estimated resources. Ohio Revised Code § 5705.36(A)(4) requires obtaining a reduced amended certificate if the amount of the deficiency will reduce available resources below the current level of appropriations.

City of East Cleveland

Schedule of Findings (continued)

For the Year Ended December 31, 2012

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

2012-07 – Material noncompliance (continued)

At December 31, 2012, the following funds had appropriations which exceeded actual receipts plus unencumbered cash:

<u>Fund Name</u>	<u>Actual Receipts Plus Unencumbered Cash</u>	<u>Final Appropriations</u>	<u>Variance</u>
Governmental Funds:			
General	\$ 15,510,021	\$ 17,090,406	\$ (1,580,385)
Older Americans	(445,815)	999	(446,814)
FEMA Grant	27,644	132,628	(104,984)
Courts Community Service	(3,190)	-	(3,190)
Wall of Fame	1,011	1,012	(1)
Community Development Block Grant	1,390,653	5,207,090	(3,816,437)
Demographic Employment Opportunities Program	1,669	148,594	(146,925)
Domestic Violence	(115,107)	40,986	(156,093)
DARE	(127)	-	(127)
Neighborhood Stabilization Program - 1	430,558	1,566,690	(1,136,132)
Summer Day Camp	-	12,000	(12,000)
Victims of Crime Act	(13,874)	78,760	(92,634)
Neighborhood Stabilization Program - 3	242,443	1,068,142	(825,699)
JAG Police	(6,179)	25,000	(31,179)
H.S. Brown Renovation	-	2,320	(2,320)
Enterprise Funds:			
Sewer	(426,823)	20,293	(447,116)

We recommend the City compare actual receipts with the certificate of estimated resources and appropriations on a monthly basis. If the actual receipts are less than the certificate, then the City should obtain a reduced amended certificate and adjust the appropriations accordingly.

2012-08 – Material noncompliance

Ohio Revised Code Section 5705.41(D)(1) prohibits a subdivision or taxing authority from making any contract or ordering any expenditure of money unless a certificate signed by the Fiscal Officer is attached thereto. The fiscal officer must certify the amount required to meet any such contract or expenditure has been lawfully appropriated and is in the treasury, or in the process of collection to the credit of an appropriate fund free from any previous encumbrance.

City of East Cleveland

Schedule of Findings (continued)

For the Year Ended December 31, 2012

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

2012-08 – Material noncompliance (continued)

There are several exceptions to the standard requirement above that a Fiscal Officer's certificate must be obtained prior to a subdivision or taxing authority entering into a contract or order involving the expenditure of money. The main exceptions are: "then and now" certificates, blanket certificates, and super blanket certificates, which are provided for in sections 5705.41(D)(I) and 5705.41(D)(3), respectively, of the Ohio Revised Code.

"Then and Now" certificate – If the Fiscal Officer can certify that both at the time the contract or order was made ("then"), and at the time that he is completing the certification ("now"), that sufficient funds were available or in the process of collection, to the credit of a proper fund, properly appropriated and free from any previous encumbrance, the taxing authority can authorize the drawing of a warrant for the payment of the amount due. The taxing authority has 30 days from the receipt of the "then and now" certificate to approve payment by ordinance or resolution. Amounts of less than \$3,000 may be paid by the fiscal officer without a resolution or ordinance upon completion of the "then and now" certificate, provided the expenditure is otherwise lawful. This does not eliminate any otherwise applicable requirement for approval of expenditures by the taxing authority.

Blanket Certificate – Fiscal Officers may prepare blanket certificates for a certain sum of money not in excess of an amount established by resolution or ordinance adopted by a majority of the members of the board against any specific line item account over a period not running beyond the current fiscal year. The blanket certificates may, but need not, be limited to a specific vendor. Only one blanket certificate may be outstanding at one particular time for any particular line item appropriation.

Super Blanket Certificate – The taxing authority may also make expenditures and contracts for any amount from a specific line item appropriation account in a specified fund upon certification of the Fiscal Officer for most professional services, fuel, oil, food items, and any other specific recurring and reasonably predictable operating expense. This certification is not to extend beyond the current year. More than one super blanket certificate may be outstanding at a particular time for any line item appropriation.

During a test of 40 transactions, we noted 15 instances in which the transaction was not certified by the Finance Director at the time the commitment was incurred and there was no evidence the City followed the aforementioned exceptions. Unless the exceptions noted above are used, prior certification is not only required by statute but is a key control in the disbursement process to assure that purchase commitments receive prior approval. Failure to properly certify the availability of funds can result in overspending funds and negative cash fund balances.

We recommend the City certify purchases to which section 5705.41(D) applies. To improve controls over disbursements and to help reduce the possibility of the City's funds exceeding budgetary spending limitations, we recommend the Finance Director certify that funds are or will be available prior to obligation by the City. When prior certification is not possible, "then and now" certification should be used. The fiscal officer should post approved purchase commitments to the proper appropriation code, to reduce the available appropriation.

City of East Cleveland

Schedule of Findings (continued)

For the Year Ended December 31, 2012

3. Findings for Federal Awards

Finding Number	2012-09
CFDA Title and Number	Community Development Block Grants/State's Program and Non-Entitlement Grants in Hawaii (State Administered Small Cities Program), CFDA # 14.228
Federal Award Year	2012
Federal Agency	U.S. Department of Housing and Urban Development
Pass-Through Agency	Ohio Department of Development

Cash Management

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

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

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

Official's Response

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

Finding Number	2012-10
-----------------------	---------

Material Noncompliance

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

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

Management's Response:

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

City of East Cleveland

Schedule of Prior Audit Findings

December 31, 2012

Finding No.	Finding Summary	Fully Corrected	Explanation
2011-01	<p><i>Material Weakness – audit adjustments</i></p> <p>Sound financial reporting is the responsibility of the Director of Finance and City Council and is essential to ensure the information provided to the readers of the financial statements is complete and accurate.</p> <p>During a review of the report the following adjustments were identified:</p> <ul style="list-style-type: none"> • Adjusted accounts payable to actual at December 31, 2011. • Restatement of emergency medical service charges revenue that was overstated in 2010 in the emergency medical service special revenue fund. • Adjusted contracts payable to actual at December 31, 2011. • Adjusted EMS receivable to actual at December 31, 2011. • Adjusted income tax receivable to remove the uncollectible portion from the receivable balance as estimated by R.I.T.A. <p>We also noted multiple instances where adjustments were needed for non-payroll expenditures that were booked to payroll accounts within the City’s computer system.</p> <p>Official’s Response: Management has developed appropriate monitoring procedures to ensure that the financial statements are complete and accurate.</p>	No	The City had similar audit adjustments in the current year.

City of East Cleveland

Schedule of Prior Audit Findings (continued)

December 31, 2012

Finding No.	Finding Summary	Fully Corrected	Explanation
2011-02	<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 2011 financial statements.</p>	No	The City had similar findings in the current year.
2011-03	<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 2011 financial statements.</p>	No	The City had similar findings in the current year.
2011-04	<p><i>Budgetary Control – Material Noncompliance</i></p> <p>The following funds had deficit cash balances at December 31, 2011:</p> <p>Governmental Funds: Older Americans fund Courts Community Service fund Domestic Violence fund D.A.R.E Victims of Crimes Act fund JAG Police Neighborhood Support Program Community Development fund</p> <p>Enterprise Funds: Water fund Sewer fund</p>	No	The City has material noncompliance again in 2012.

City of East Cleveland

Schedule of Prior Audit Findings (continued)

December 31, 2012

Finding No.	Finding Summary	Fully Corrected	Explanation
2011-05	<p><i>Budgetary Control – Material Noncompliance</i></p> <p>Ohio Revised Code Section 5705.39 – the total appropriation from each fund should not exceed the total estimated revenue. No appropriation measure is to become effective until the County Auditor files a certificate that the total appropriations from each fund do not exceed the total official estimate or amended official estimate.</p> <p>At December 31, 2011, the City had numerous funds with original and final appropriation in excess of estimated resources plus carryover balances.</p>	No	The City has material noncompliance again in 2012.
2011-06	<p><i>Budgetary Control – Material Noncompliance</i></p> <p>The Ohio Revised Code Section 5705.41(B) prohibits a subdivision from making an expenditure unless it has been appropriated as provided in Chapter 5705 of the Revised Code.</p> <p>At December 31, 2011, the City had numerous funds with expenditures plus encumbrances in excess of appropriations.</p>	No	The City has material noncompliance again in 2012.
2011-007	<p><i>Budgetary Control – Material Noncompliance</i></p> <p>Ohio Revised Code § 5705.36(A)(2) allows all subdivisions to request increased amended certificates of estimated resources and reduced certificates upon determination by the fiscal officer that revenue to be collected will be greater or less than the amount in the official certificate of estimated resources. Ohio Revised Code § 5705.36(A)(4) requires obtaining a reduced amended certificate if the amount of the deficiency will reduce available resources below the current level of appropriations.</p> <p>At December 31, 2012, the City had several funds where appropriations materially exceeded actual resources.</p>	No	The City has material noncompliance again in 2012.

City of East Cleveland

Schedule of Prior Audit Findings (continued)

December 31, 2012

2011-08	<p><i>Material Noncompliance</i> Ohio Revised Code Section 5705.41(D)(1) prohibits a subdivision or taxing authority from making any contract or ordering any expenditure of money unless a certificate signed by the fiscal officer is attached thereto. The fiscal officer must certify the amount required to meet any such contract or expenditure has been lawfully appropriated and is in the treasury, or in the process of collection to the credit of an appropriate fund free from any previous encumbrance.</p> <p>Several instances were noted in which the transaction was not certified by the fiscal officer at the time of the commitment, contrary to Ohio Rev. Code Section 5705.41(D)(1).</p>	No	The City has material noncompliance again in 2012.
2011-09	<p><i>Federal Finding - Cash Management</i> Office of Housing and Community Partnerships (OHCP) Management Rules and Regulations, section (A)(3)(f), states that grantees must develop a cash management system to ensure compliance with the Fifteen-Day Rule relating to prompt disbursement of funds. This rule states that funds drawn down should be limited to amounts that will enable the grantee to disburse the funds on hand to a balance of less than \$5,000 within 15 days of receipt of any funds. Lump-sum drawdowns are not permitted.</p> <p>During our testing over the City's cash draws, we noted that the funds that were drawn down were not disbursed to a balance of less than \$5,000 within 15 days of receipt of those funds. However, it should be noted that the expenditures made with those funds were for allowable costs.</p>	No	The City has noncompliance again in 2012.

City of East Cleveland

Schedule of Prior Audit Findings (continued)

December 31, 2012

Finding No.	Finding Summary	Fully Corrected	Explanation
2011-10	<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 2012.

City of East Cleveland

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

Response to Findings Associated With Audit Conducted In Accordance With *Government Auditing Standards* For The Year Ended December 31, 2012

Finding Number	Planned Correction Action	Anticipated Completion Date	Responsible Contact Person
2012-01	Management will create and implement written policies and procedures for controls over year-end financial reporting to help ensure the information accurately reflects the activity of the City thereby increasing the reliability of the financial data at year-end.	December 31, 2013	Irene Crowell, Finance Director
2012-02	Management will reconcile the amounts reported in the City's computer system in order to accurately report the amount of capital assets and accumulated depreciation at year-end.	December 31, 2013	Irene Crowell, Finance Director
2012-03	Management will maintain supporting payroll documentation by the payroll department or in the employee's personnel file.	December 31, 2013	Irene Crowell, Finance Director
2012-04	Management will monitor the timing of receipts, and advance monies from the General Fund when available to eliminate negative cash fund balances.	December 31, 2013	Irene Crowell, Finance Director
2012-05	Management will spend within available resources and approved appropriations.	December 31, 2013	Irene Crowell, Finance Director
2012-06	Management will compare appropriations with expenditures plus encumbrances on a monthly basis to ensure appropriations are not exceeded.	December 31, 2013	Irene Crowell, Finance Director

City of East Cleveland

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

Response to Findings Associated With Audit Conducted In Accordance With *Government Auditing Standards* For The Year Ended December 31, 2012 (continued)

Finding Number	Planned Correction Action	Anticipated Completion Date	Responsible Contact Person
2012-07	Management will compare actual receipts with the Certificate of Estimated Resources and appropriations on a monthly basis, amending the certificate and adjusting the appropriations when necessary.	December 31, 2013	Irene Crowell, Finance Director
2012-08	Management will improve controls over disbursements and to help reduce the possibility of the City's funds exceeding budgetary spending limitations and consider the use of "Then and Now" certification.	December 31, 2013	Irene Crowell, Finance Director
2012-09	The City currently disburses CDBG funds drawn down within the 15-day requirement.	December 31, 2013	Irene Crowell, Finance Director
2012-10	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, 2013	Irene Crowell, Finance Director



Dave Yost • Auditor of State

CITY OF EAST CLEVELAND

CUYAHOGA COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
DECEMBER 19, 2013**