

**CITY OF EAST CLEVELAND, OHIO
CUYAHOGA COUNTY**

SINGLE AUDIT

FOR THE YEAR ENDED DECEMBER 31, 2020

OHIO AUDITOR OF STATE
KEITH FABER



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Members of Council
City of East Cleveland
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We have reviewed the *Independent Auditor's Report* of the City of East Cleveland, Cuyahoga County, prepared by Ciuni & Panichi, Inc., for the audit period January 1, 2020 through December 31, 2020. 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. In conjunction with the work performed by the Independent Public Accountant, the Auditor of State is issuing the following:

The Auditor of State is conducting an investigation of the City, any potential findings related to controls or compliance will be reported in a future report.

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 "Keith Faber".

Keith Faber
Auditor of State
Columbus, Ohio

May 26, 2022

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City of East Cleveland, Ohio

For the Year Ended December 31, 2020

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Independent Auditor's Report

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

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the City of East Cleveland, Ohio (the "City"), as of and for the year ended December 31, 2020, 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 unmodified and qualified audit opinions.

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

Summary of Opinions

<u>Opinion Unit</u>	<u>Type of Opinion</u>
Governmental Activities	Qualified
General Fund	Unmodified
Coronavirus Relief Fund	Unmodified
Aggregate Remaining Fund Information	Unmodified

Basis for Qualified Opinion on Governmental Activities

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

Qualified Opinion

In our opinion, except for the effects of the matter described in the “Basis for Qualified Opinion on Governmental Activities” paragraph, the financial statements referred to above present fairly, in all material respects, the financial position of the Governmental Activities of the City, as of December 31, 2020, and the changes in financial position thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Unmodified Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of each major fund and the aggregate remaining fund information of the City, as of December 31, 2020, and the respective changes in financial position, and, where applicable, cash flows thereof and the respective budgetary comparison for the General Fund and the Coronavirus Relief Fund for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matters

Implementation of New Accounting Standard

As described in Note 3 to the basic financial statements, in 2020, the City adopted new accounting guidance, Governmental Accounting Standards Board (GASB) Statement No. 83, *Certain Asset Retirement Obligations (ARO's)* and as a result restated their December 31, 2019 net position of the governmental activities. Our opinion is not modified with respect to this matter.

Fiscal Emergency

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.

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

Other Matters

Required Supplementary Information

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

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated May 16, 2022, 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 solely 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 the effectiveness of the City's 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.



Cleveland, Ohio
May 16, 2022

City of East Cleveland, Ohio
Notes to the Basic Financial Statements
For The Year Ended December 31, 2020

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City of East Cleveland, Ohio
Management's Discussion and Analysis
For the Year Ended December 31, 2020
Unaudited

The discussion and analysis of the City of East Cleveland's (the "City") financial performance provides an overview of the City's financial activities for the year ended December 31, 2020. 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 2020 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.
- Capital asset additions included various pieces of equipment, a police vehicle, street lighting and road improvements.
- The City continued the annual pay down of debt reducing the outstanding liabilities specific to the Ohio Public Works Commission loans and the Police and Fire liability.

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 2020 and how they affected the operations of the City as a whole.

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

Reporting the City of East Cleveland as a Whole

Statement of Net Position and Statement of Activities

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

City of East Cleveland, Ohio
Management's Discussion and Analysis
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These two statements report the City's net position and changes in net position. The change in net position is important since it is an indication of whether the financial position of the City is improving or declining. However, to properly evaluate the operation of the City, certain non-cash items should be taken into consideration. These items would include the current economic situation as a whole, the current tax base for the City and the age and condition of the City's buildings and infrastructure.

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

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

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

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

Fund Financial Statements

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

However, these fund financial statements focus on the City's most significant funds. In this report, the focus is on the City's two major funds, the general fund and the coronavirus relief special revenue fund.

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

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

Proprietary Funds An internal service fund is an accounting device used to accumulate and allocate costs internally among the City's various functions. The City maintains such a fund for its hospitalization benefits for employee hospital/medical, prescription and dental plans.

City of East Cleveland, Ohio
Management's Discussion and Analysis
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Fiduciary Funds Fiduciary funds are used to account for resources held for the benefit of parties outside the City. Fiduciary funds are not reflected in the government-wide financial statements because the resources of those funds are not available to support the City's own programs. The accounting used for fiduciary funds is much like that used for proprietary funds. The City's fiduciary fund is a custodial fund.

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 2020 compared to 2019.

Table 1
Net Position
Governmental Activities

	2020	Restated 2019	Change
Assets			
Current and Other Assets	\$17,438,620	\$14,058,537	\$3,380,083
Capital Assets, Net	18,778,715	18,734,807	43,908
<i>Total Assets</i>	<u>36,217,335</u>	<u>32,793,344</u>	<u>3,423,991</u>
Deferred Outflows of Resources			
Pension	3,225,208	5,227,795	(2,002,587)
OPEB	1,707,448	1,441,976	265,472
Asset Retirement Obligation	5,134	5,867	(733)
<i>Total Deferred Outflows of Resources</i>	<u>4,937,790</u>	<u>6,675,638</u>	<u>(1,737,848)</u>
Liabilities			
Current Liabilities	2,451,419	3,364,837	913,418
Long-Term Liabilities:			
Due Within One Year	602,971	574,664	(28,307)
Due in More than One Year			
Net Pension Liability	13,044,820	15,520,589	2,475,769
Net OPEB Liability	3,055,245	2,861,802	(193,443)
Other Amounts	35,248,045	35,322,424	74,379
<i>Total Liabilities</i>	<u>54,402,500</u>	<u>57,644,316</u>	<u>3,241,816</u>
Deferred Inflows of Resources			
Property Taxes	910,526	898,990	(11,536)
Pension	3,203,260	2,601,556	(601,704)
OPEB	932,043	669,412	(262,631)
<i>Total Deferred Inflows of Resources</i>	<u>5,045,829</u>	<u>4,169,958</u>	<u>(875,871)</u>
Net Position			
Net Investment in Capital Assets	16,425,405	15,014,737	1,410,668
Restricted for:			
Capital Projects	271,965	673,685	(401,720)
Debt Service	40,331	0	40,331
Other Purposes	356,329	1,658,112	(1,301,783)
Unrestricted (Deficit)	<u>(35,387,234)</u>	<u>(39,691,826)</u>	<u>4,304,592</u>
<i>Total Net Position</i>	<u>(\$18,293,204)</u>	<u>(\$22,345,292)</u>	<u>\$4,052,088</u>

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The net pension liability (NPL) is the largest single liability reported by the City at December 31, 2020. The Governmental Accounting Standards Board (GASB) notes that pension and OPEB obligations, whether funded or unfunded, are part of the “employment exchange” – that is, the employee is trading his or her labor in exchange for wages, benefits, and the promise of a future pension and other postemployment benefits. GASB noted that the unfunded portion of this promise is a present obligation of the government, part of a bargained-for benefit to the employee, and should accordingly be reported by the government as a liability since they received the benefit of the exchange. However, the City is not responsible for certain key factors affecting the balance of these liabilities. In Ohio, the employee shares the obligation of funding pension benefits with the employer. Both employer and employee contribution rates are capped by State statute. A change in these caps requires action of both Houses of the General Assembly and approval of the Governor. Benefit provisions are also determined by State statute. The Ohio Revised Code permits, but does not require the retirement systems to provide healthcare to eligible benefit recipients. The retirement systems may allocate a portion of the employer contributions to provide for these OPEB benefits.

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

In accordance with GASB 68 and GASB 75, the City's statements prepared on an accrual basis of accounting include an annual pension expense and an annual OPEB expense for their proportionate share of each plan's *change* in net pension liability and net OPEB liability, respectively, not accounted for as deferred inflows/outflows.

The largest portion of the City's net position reflects “Net Investment in Capital Assets” (i.e. land, construction in progress, buildings, improvements, machinery and equipment, vehicles and infrastructure) less any related debt to acquire those assets that is still outstanding. The City uses these capital assets to provide services to its citizens; consequently, these assets are not available for future spending. Although the City's investment in its capital assets is reported net of related debt, it should be noted that resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

Net position of governmental activities increased from the prior year due mainly to an increase in cash resulting from revenues exceeding expenses in 2020.

In order to further understand what makes up the changes in net position for the current year, the following table gives readers further details regarding the results of activities for the current year. Table 2 shows total revenues, expenses and changes in net position for 2020 and 2019.

City of East Cleveland, Ohio
Management's Discussion and Analysis
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Table 2
Changes in Net Position
Governmental Activities

	2020	Restated 2019	Change
Revenues:			
Program Revenues:			
Charges for Services	\$4,511,372	\$5,729,773	(\$1,218,401)
Operating Grants and Contributions	6,363,916	2,781,024	3,582,892
Capital Grants and Contributions	0	76,334	(76,334)
<i>Total Program Revenues</i>	<u>10,875,288</u>	<u>8,587,131</u>	<u>2,288,157</u>
General Revenues:			
Property Taxes	1,186,606	840,384	346,222
Municipal Income Taxes	4,786,567	3,567,444	1,219,123
Hotel Tax	3,413	3,464	(51)
Grants and Entitlements	2,159,169	1,851,798	307,371
Interest	30,486	77,546	(47,060)
Gain on Restructuring Payables	83,549	519,122	(435,573)
Other	1,805,180	584,742	1,220,438
<i>Total General Revenues</i>	<u>10,054,970</u>	<u>7,444,500</u>	<u>2,610,470</u>
<i>Total Revenues</i>	<u>20,930,258</u>	<u>16,031,631</u>	<u>4,898,627</u>
Program Expenses			
General Government	4,684,908	3,899,306	785,602
Security of Persons and Property	8,534,141	1,072,606	7,461,535
Transportation	1,588,170	1,215,423	372,747
Community Development	681,043	736,619	(55,576)
Leisure Time Activities	108,677	127,091	(18,414)
Basic Utility Services	1,230,085	1,330,295	(100,210)
Interest and Fiscal Charges	51,146	54,331	(3,185)
<i>Total Program Expenses</i>	<u>16,878,170</u>	<u>8,435,671</u>	<u>8,442,499</u>
Change in Net Position	4,052,088	7,595,960	(3,543,872)
<i>Net Position Beginning of Year</i>	<u>(22,345,292)</u>	<u>(29,941,252)</u>	<u>7,595,960</u>
<i>Net Position End of Year</i>	<u>(\$18,293,204)</u>	<u>(\$22,345,292)</u>	<u>\$4,052,088</u>

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, 2020. The City does not allow any credit of the City's income tax rate for taxes paid to other political subdivisions in Ohio. The City realized an increase in operating grants as the City received \$3,962,878 in coronavirus relief grant money.

The operations of the City's police and fire departments account for normally 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 over 40 full- and part-time patrolmen and dispatchers. The fire department is staffed by over 20 full- and part-time firefighters. The police and fire departments are operated with general fund dollars along with FEMA grant 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.

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In 2019, OP&F recognized a change in benefit terms for their OPEB plan. Under this new model, OP&F provides eligible retirees with a fixed stipend earmarked to pay for health care and Medicare Part B reimbursements. This new model replaced the self-insured health care plan used in prior years. These changes contributed to the OP&F OPEB expense decreasing from \$667,372 in 2018 to a negative OPEB expense of (\$6,742,449) for 2019. In 2020, the OPEB expense is \$262,491.

The City saw an overall increase in the cost of services in 2020. General government includes the costs of the Mayor, Finance Department, the Law Director, Council, Engineering and Human and Central Services. General government had a slight increase in expenses in 2020. Security of persons and property increased due to the changes in the OP&F plan previously discussed. 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. Transportation costs increased in 2020 due to road repair maintenance projects. 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 2020	Total Cost of Services 2019	Net Cost of Services 2020	Net Cost of Services 2019
General Government	\$4,684,908	\$3,899,306	\$2,667,552	\$2,461,379
Security of Persons and Property	8,534,141	1,072,606	1,450,384	(3,250,763)
Transportation	1,588,170	1,215,423	982,331	558,907
Community Development	681,043	736,619	28,143	(824,391)
Leisure Time Activities	108,677	127,091	64,587	76,960
Basic Utility Services	1,230,085	1,330,295	758,739	772,117
Interest and Fiscal Charges	51,146	54,331	51,146	54,331
Total	\$16,878,170	\$8,435,671	\$6,002,882	(\$151,460)

The City's Funds

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

The City's major governmental funds are the general fund and the coronavirus relief special revenue fund. The City's main operational fund saw an increase in fund balance. The City's general fund saw increases to both revenues and expenditures with the revenues exceeding current year expenditures resulting in the increase. The coronavirus relief fund had a decrease in fund balance due the timing of grant funding.

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

For the general fund, the original budgeted revenues were higher than final budgeted revenues due to minor adjustments made throughout the year. Actual revenues were higher than the final projections as property tax receipts coupled with the corresponding homestead and rollback collections were better than anticipated. Actual revenues for other revenues were higher than final projections due to the Ohio Bureau of Workers' Compensation rebate. The original budgeted expenditures were lower than the final budgeted expenditures due to the need for additional expenditures during the year that became apparent over time. Actual expenditures were lower than the budgeted expenditures because of the efforts of the City's leaders to constantly monitor its finances. The City's ending unencumbered cash balance in the general fund was up from the prior year.

Capital Assets and Debt Administration

Capital Assets

Total capital assets for governmental activities for the City of East Cleveland increased from 2019 primarily due to the capital asset additions outpacing yearly depreciation. Capital asset additions consisted of air conditioning and HVAC units, various new equipment items, a police vehicle, street lighting and road improvements. See Note 11 in the financial statements for more information regarding the City's capital assets.

Long-Term Obligations

The outstanding long-term obligations for the City of East Cleveland as of December 31, 2020, has decreased.

The capital leases are for a front loader and a John Deere tractor and will be paid from the permanent improvement capital projects fund.

The Ohio Public Works Commission (OPWC) governmental activities loans are comprised of zero percent interest loans. The purpose of the loans are for the construction and improvement of streets and various water projects, most notable of which is the 1997 water main project. The loans were to be paid over a period of 20 years from the debt service fund. During 2014, the City defaulted on their July 2014 OPWC payment due to

City of East Cleveland, Ohio
Management's Discussion and Analysis
For the Year Ended December 31, 2020
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cash constraints. The City renegotiated revised payment schedules with OPWC. The loans are now for a thirty year period that started in 2014.

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

See Note 13 in the financial statements for more information regarding the City's long-term obligations.

Current Financial Issues

The City of East Cleveland remains in Fiscal Emergency as it has experienced a financial shortfall. 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 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.

Contacting the City's Finance Department

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

Basic Financial Statements

City of East Cleveland, Ohio

Statement of Net Position

December 31, 2020

	<u>Governmental Activities</u>
Assets	
Equity in Pooled Cash and Cash Equivalents	\$9,083,996
Cash and Cash Equivalents In Segregated Accounts	15,298
Accounts Receivable	712,310
Intergovernmental Receivable	1,703,387
Prepaid Items	13,736
Materials and Supplies Inventory	50,200
Municipal Income Taxes Receivable	1,777,845
Property Taxes Receivable	3,741,932
Special Assessments Receivable	339,916
Nondepreciable Capital Assets	666,266
Depreciable Capital Assets, Net	<u>18,112,449</u>
<i>Total Assets</i>	<u>36,217,335</u>
Deferred Outflows of Resources	
Pension	3,225,208
OPEB	1,707,448
Asset Retirement Obligation	<u>5,134</u>
<i>Total Deferred Outflows of Resources</i>	<u>4,937,790</u>
Liabilities	
Accounts Payable	656,581
Accrued Wages	207,969
Contracts Payable	42,050
Intergovernmental Payable	380,282
Judgments Payable	1,025,277
Accrued Interest Payable	8,407
Claims Payable	46,189
Employee Withholdings Payable	84,664
Long-Term Liabilities:	
Due Within One Year	602,971
Due In More Than One Year	
Net Pension Liability (See Note 14)	13,044,820
Net OPEB Liability (See Note 15)	3,055,245
Other Amounts	<u>35,248,045</u>
<i>Total Liabilities</i>	<u>54,402,500</u>
Deferred Inflows of Resources	
Property Taxes	910,526
Pension	3,203,260
OPEB	<u>932,043</u>
<i>Total Deferred Inflows of Resources</i>	<u>5,045,829</u>
Net Position	
Net Investment in Capital Assets	16,425,405
Restricted for:	
Capital Projects	271,965
Debt Service	40,331
Other Purposes	356,329
Unrestricted (Deficit)	<u>(35,387,234)</u>
<i>Total Net Position</i>	<u>(\$18,293,204)</u>

See accompanying notes to the basic financial statements

City of East Cleveland, Ohio
Statement of Activities
For the Year Ended December 31, 2020

	Program Revenues			Net (Expense) Revenue and Changes in Net Position
Expenses	Charges for Services	Operating Grants and Contributions	Governmental Activities	
Governmental Activities:				
General Government	\$4,684,908	\$1,633,472	\$383,884	(\$2,667,552)
Security of Persons and Property	8,534,141	2,207,121	4,876,636	(1,450,384)
Transportation	1,588,170	121,098	484,741	(982,331)
Community Development	681,043	34,245	618,655	(28,143)
Leisure Time Activities	108,677	44,090	0	(64,587)
Basic Utility Services	1,230,085	471,346	0	(758,739)
Interest and Fiscal Charges	51,146	0	0	(51,146)
<i>Total</i>	\$16,878,170	\$4,511,372	\$6,363,916	(6,002,882)
General Revenues				
Property Taxes Levied for:				
General Purposes				980,369
Capital Projects				158,659
Police Pension Liability				23,789
Fire Pension Liability				23,789
Municipal Income Taxes Levied for:				
General Purposes				4,786,567
Hotel Tax				3,413
Grants and Entitlements not Restricted to Specific Programs				2,159,169
Interest				30,486
Gain on Restructuring Payables				83,549
Other				1,805,180
<i>Total General Revenues</i>				10,054,970
Change in Net Position				4,052,088
<i>Net Position Beginning of Year - Restated (See Note 3)</i>				(22,345,292)
<i>Net Position End of Year</i>				(\$18,293,204)

See accompanying notes to the basic financial statements

City of East Cleveland, Ohio

*Balance Sheet
Governmental Funds
December 31, 2020*

	General	Coronavirus Relief	Other Governmental Funds	Total Governmental Funds
Assets				
Equity in Pooled Cash and Cash Equivalents	\$5,727,491	\$0	\$2,584,944	\$8,312,435
Cash and Cash Equivalents In Segregated Account	15,061	0	237	15,298
Accounts Receivable	197,125	0	515,185	712,310
Interfund Receivable	895,517	0	108,676	1,004,193
Intergovernmental Receivable	1,107,686	69,840	525,861	1,703,387
Materials and Supplies Inventory	0	0	50,200	50,200
Municipal Income Taxes Receivable	1,777,845	0	0	1,777,845
Property Taxes Receivable	2,975,884	0	766,048	3,741,932
Special Assessments Receivable	339,916	0	0	339,916
Prepaid Items	13,736	0	0	13,736
Restricted Assets:				
Equity in Pooled Cash and Cash Equivalents	24,526	0	0	24,526
<i>Total Assets</i>	<u>\$13,074,787</u>	<u>\$69,840</u>	<u>\$4,551,151</u>	<u>\$17,695,778</u>
Liabilities				
Accounts Payable	\$265,132	\$839	\$366,084	\$632,055
Accounts Payable from Restricted Assets	24,526	0	0	24,526
Accrued Wages	149,790	0	58,179	207,969
Contracts Payable	20,550	0	21,500	42,050
Intergovernmental Payable	154,421	0	225,861	380,282
Judgments Payable	1,025,277	0	0	1,025,277
Employee Withholdings Payable	60,980	0	23,684	84,664
Interfund Payable	140,285	69,840	840,257	1,050,382
<i>Total Liabilities</i>	<u>1,840,961</u>	<u>70,679</u>	<u>1,535,565</u>	<u>3,447,205</u>
Deferred Inflows of Resources:				
Property Taxes	724,120	0	186,406	910,526
Unavailable Revenue	4,476,123	69,840	1,389,137	5,935,100
<i>Total Deferred Inflows of Resources</i>	<u>5,200,243</u>	<u>69,840</u>	<u>1,575,543</u>	<u>6,845,626</u>
Fund Balances				
Nonspendable	13,736	0	50,200	63,936
Restricted	0	0	1,289,229	1,289,229
Committed	0	0	886,661	886,661
Assigned	3,232,432	0	0	3,232,432
Unassigned (Deficit)	2,787,415	(70,679)	(786,047)	1,930,689
<i>Total Fund Balances (Deficit)</i>	<u>6,033,583</u>	<u>(70,679)</u>	<u>1,440,043</u>	<u>7,402,947</u>
<i>Total Liabilities, Deferred Inflows of Resources and Fund Balances</i>	<u>\$13,074,787</u>	<u>\$69,840</u>	<u>\$4,551,151</u>	<u>\$17,695,778</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, 2020*

Total Governmental Funds Balances	\$7,402,947
 <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.	18,778,715
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	2,831,406
Municipal Income Taxes	1,074,017
Special Assessments	339,916
Intergovernmental	1,192,259
Fines and Forfeitures	115,210
Charges for Services	382,292
Total	5,935,100
An internal service fund is used by management to charge the costs of insurance to individual funds. The assets and liabilities of the internal service fund are included in governmental activities in the statement of net position.	747,035
In the statement of net position, interest is accrued on outstanding liabilities, whereas in governmental funds, an interest expenditure is reported when due.	(8,407)
The net pension/OPEB liabilities are not due and payable in the current period; therefore, the liabilities and related deferred inflows/outflows are not reported in governmental funds:	
Deferred Outflows - Pension	3,225,208
Deferred Outflows - OPEB	1,707,448
Net Pension Liability	(13,044,820)
Net OPEB Liability	(3,055,245)
Deferred Inflows - Pension	(3,203,260)
Deferred Inflows - OPEB	(932,043)
Total	(15,302,712)
Long-term liabilities are not due and payable in the current period and therefore are not reported in the funds:	
OPWC Loans	(2,339,450)
Capital Leases	(170,797)
Police and Fire Pension Liability Compensated	(1,002,447)
Absences Judgments	(1,139,717)
Deferred Outflows Asset Retirement Obligation	(31,088,605)
Asset Retirement Obligation	5,134
Total	(110,000)
Total	(35,845,882)
<i>Net Position of Governmental Activities</i>	(18,293,204)

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, 2020

	General	Coronavirus Relief	Other Governmental Funds	Total Governmental Funds
Revenues				
Property Taxes	\$1,014,953	\$0	\$215,159	\$1,230,112
Hotel Tax	3,413	0	0	3,413
Municipal Income Taxes	5,014,981	0	0	5,014,981
Special Assessments	369,792	0	0	369,792
Intergovernmental	1,966,382	3,962,878	2,855,008	8,784,268
Fees, Licenses and Permits	323,235	0	0	323,235
Fines and Forfeitures	1,833,748	0	199,861	2,033,609
Rentals	37,696	0	0	37,696
Charges for Services	831,869	0	918,438	1,750,307
Interest	28,422	2,064	0	30,486
Other	1,590,136	0	323,209	1,913,345
<i>Total Revenues</i>	<u>13,014,627</u>	<u>3,964,942</u>	<u>4,511,675</u>	<u>21,491,244</u>
Expenditures				
Current:				
General Government	4,229,631	384,160	31,088	4,644,879
Security of Persons and Property	3,203,954	3,651,461	1,098,208	7,953,623
Transportation	315,657	0	916,770	1,232,427
Community Development	89,617	0	745,229	834,846
Leisure Time Activities	111,262	0	0	111,262
Basic Utility Services	1,227,342	0	0	1,227,342
Capital Outlay	0	0	604,407	604,407
Debt Service:				
Principal Retirement	0	0	137,968	137,968
Interest and Fiscal Charges	0	0	52,681	52,681
<i>Total Expenditures</i>	<u>9,177,463</u>	<u>4,035,621</u>	<u>3,586,351</u>	<u>16,799,435</u>
<i>Excess of Revenues Over (Under) Expenditures</i>	<u>3,837,164</u>	<u>(70,679)</u>	<u>925,324</u>	<u>4,691,809</u>
Other Financing Sources (Uses)				
Transfers In	0	0	97,477	97,477
Transfers Out	(97,477)	0	0	(97,477)
<i>Total Other Financing Sources (Uses)</i>	<u>(97,477)</u>	<u>0</u>	<u>97,477</u>	<u>0</u>
<i>Net Change in Fund Balances</i>	3,739,687	(70,679)	1,022,801	4,691,809
<i>Fund Balances Beginning of Year</i>	<u>2,293,896</u>	<u>0</u>	<u>417,242</u>	<u>2,711,138</u>
<i>Fund Balances (Deficit) End of Year</i>	<u>\$6,033,583</u>	<u>(\$70,679)</u>	<u>\$1,440,043</u>	<u>\$7,402,947</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, 2020*

Net Change in Fund Balances - Total Governmental Funds \$4,691,809

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

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

Capital Outlay	1,062,523	
Depreciation	(1,018,615)	
Total		43,908

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

Delinquent Property Taxes	(43,506)	
Municipal Income Taxes	(228,414)	
Special Assessments	19,213	
Intergovernmental	(261,183)	
Fees, Licenses and Permits	(2,049)	
Fines and Forfeitures	115,210	
Charges for Services	(135,641)	
Other	(24,616)	
Total		(560,986)

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

Pension	1,094,773	
OPEB	25,322	
Total		1,120,095

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

Pension	(1,223,295)	
OPEB	(215,924)	
Total		(1,439,219)

Amortization of deferred outflows related to the asset retirement obligation is reported as an expense in the statement of activities. (733)

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. 137,968

In the statement of activities interest is accrued whereas in governmental funds, an interest expenditure is reported when due. 1,535

Some expenses, such as compensated absences and judgments, 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. (91,896)

The internal service fund used to charge the costs of insurance to individual funds is not reported in the City-wide statement of activities. Governmental fund expenditures and related internal service fund revenue are eliminated. The net revenue (expense) of the internal service fund is allocated among the governmental activities. 149,607

Change in Net Position of Governmental Activities \$4,052,088

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, 2020

	<u>Budgeted Amounts</u>			Variance with Final Budget Positive (Negative)
	<u>Original</u>	<u>Final</u>	<u>Actual</u>	
Revenues				
Property Taxes	\$773,844	\$748,982	\$1,014,953	\$265,971
Hotel Tax	3,392	3,283	3,413	130
Municipal Income Taxes	4,681,749	4,531,335	5,153,699	622,364
Special Assessments	344,424	333,358	369,792	36,434
Intergovernmental	1,980,450	1,916,823	1,987,083	70,260
Fees, Licenses and Permits	268,856	260,218	401,845	141,627
Fines and Forfeitures	1,854,557	1,794,974	1,796,619	1,645
Rentals	49,185	47,605	37,696	(9,909)
Charges for Services	849,559	822,265	829,275	7,010
Interest	53,588	51,866	28,422	(23,444)
Other	349,167	334,800	1,497,109	1,162,309
<i>Total Revenues</i>	<u>11,208,771</u>	<u>10,845,509</u>	<u>13,119,906</u>	<u>2,274,397</u>
Expenditures				
Current:				
General Government	3,685,315	4,087,022	3,957,916	129,106
Security of Persons and Property	5,352,753	5,920,665	2,948,344	2,972,321
Transportation	167,439	185,230	316,120	(130,890)
Community Development	132,757	146,812	89,657	57,155
Leisure Time Activities	143,185	158,079	183,364	(25,285)
Basic Utility Services	1,143,655	1,265,172	1,226,158	39,014
<i>Total Expenditures</i>	<u>10,625,104</u>	<u>11,762,980</u>	<u>8,721,559</u>	<u>3,041,421</u>
<i>Excess of Revenues Over (Under) Expenditures</i>	<u>583,667</u>	<u>(917,471)</u>	<u>4,398,347</u>	<u>5,315,818</u>
Other Financing Sources (Uses)				
Advances In	82,566	79,913	60,447	(19,466)
Advances Out	(65,626)	(72,599)	0	72,599
Transfers Out	(1,229,236)	(1,359,847)	(97,477)	1,262,370
<i>Total Other Financing Sources (Uses)</i>	<u>(1,212,296)</u>	<u>(1,352,533)</u>	<u>(37,030)</u>	<u>1,315,503</u>
<i>Net Change in Fund Balance</i>	(628,629)	(2,270,004)	4,361,317	6,631,321
<i>Fund Balance Beginning of Year</i>	2,358,392	2,358,392	2,358,392	0
Prior Year Encumbrances Appropriated	13,840	13,840	13,840	0
<i>Fund Balance End of Year</i>	<u>\$1,743,603</u>	<u>\$102,228</u>	<u>\$6,733,549</u>	<u>\$6,631,321</u>

See accompanying notes to the basic financial statements

City of East Cleveland, Ohio
Statement of Revenues, Expenditures and Changes
In Fund Balance - Budget (Non-GAAP Basis) and Actual
Coronavirus Relief Fund
For the Year Ended December 31, 2020

	<u>Budgeted Amounts</u>		<u>Actual</u>	Variance with Final Budget Positive (Negative)
	<u>Original</u>	<u>Final</u>		
Revenues				
Intergovernmental	\$2,233,507	\$2,233,507	\$3,962,878	\$1,729,371
Interest	0	0	2,064	2,064
<i>Total Revenues</i>	<u>2,233,507</u>	<u>2,233,507</u>	<u>3,964,942</u>	<u>1,731,435</u>
Expenditures				
Current:				
General Government	0	389,859	389,859	0
Security of Persons and Property	2,233,507	3,650,622	3,650,622	0
<i>Total Expenditures</i>	<u>2,233,507</u>	<u>4,040,481</u>	<u>4,040,481</u>	<u>0</u>
<i>Net Change in Fund Balance</i>	0	(1,806,974)	(75,539)	1,731,435
<i>Fund Balance Beginning of Year</i>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
<i>Fund Balance (Deficit) End of Year</i>	<u><u>\$0</u></u>	<u><u>(\$1,806,974)</u></u>	<u><u>(\$75,539)</u></u>	<u><u>\$1,731,435</u></u>

See accompanying notes to the basic financial statements

City of East Cleveland, Ohio
Statement of Fund Net Position
Proprietary Fund
December 31, 2020

	<u>Internal Service Fund - Insurance</u>
Assets	
Equity in Pooled Cash and Cash Equivalents	\$747,035
Interfund Receivable	<u>46,189</u>
<i>Total Assets</i>	793,224
Liabilities	
Claims Payable	<u>46,189</u>
Net Position	
Unrestricted	<u><u>\$747,035</u></u>

See accompanying notes to the basic financial statements

City of East Cleveland, Ohio
*Statement of Revenues,
Expenses and Changes in Fund Net Position
Proprietary Fund
For the Year Ended December 31, 2020*

	Internal Service Fund - Insurance
Operating Revenues	
Charges for Services	\$1,201,801
Operating Expenses	
Contractual Services	268,725
Claims	783,469
<i>Total Operating Expenses</i>	1,052,194
<i>Change in Net Position</i>	149,607
<i>Net Position Beginning of Year</i>	597,428
<i>Net Position End of Year</i>	\$747,035

See accompanying notes to the basic financial statements

City of East Cleveland, Ohio
Statement of Cash Flows
Proprietary Fund
For the Year Ended December 31, 2020

	Internal Service Fund - Insurance
Increase (Decrease) in Cash and Cash Equivalents	
Cash Flows from Operating Activities	
Cash Received from Interfund Services Provided	\$1,188,463
Cash Payments for Goods and Services	(268,725)
Cash Payments for Claims	(770,131)
<i>Net Increase (Decrease) in Cash and Cash Equivalent</i>	149,607
<i>Cash and Cash Equivalents Beginning of Year</i>	597,428
<i>Cash and Cash Equivalents End of Year</i>	\$747,035
 Reconciliation of Operating Income (Loss) to Net Cash Provided by (Used for) Operating Activities	
Operating Income (Loss)	\$149,607
Adjustments:	
(Increase) Decrease in Interfund Receivable	(13,338)
Increase (Decrease) in Claims Payable	13,338
<i>Total Adjustments</i>	0
<i>Net Cash Provided by (Used for) Operating Activities</i>	\$149,607

See accompanying notes to the basic financial statements

City of East Cleveland, Ohio
Statement of Fiduciary Net Position
Custodial Fund
December 31, 2020

	<u>Municipal Court</u>
Assets	
Cash and Cash Equivalents in Segregated Accounts	<u>\$395,877</u>
Liabilities	
Accounts Payable	370,849
Intergovernmental Payable	<u>25,028</u>
<i>Total Liabilities</i>	<u>395,877</u>
Net Position	
Restricted for Individuals, Organizations and Other Governments	<u><u>\$0</u></u>

See accompanying notes to the basic financial statements

City of East Cleveland, Ohio
Statement of Changes in Fiduciary Net Position
Custodial Fund
For the Year Ended December 31, 2020

	Municipal Court
Additions	
Fines and Forfeitures Collected for Other Governments	\$668,439
Rentals	246,398
<i>Total Additions</i>	914,837
Deductions	
Fines and Forfeitures Distributions for Other Governments	682,983
Payments to Individuals	231,854
<i>Total Deductions</i>	914,837
<i>Change in Net Position</i>	0
<i>Net Position Beginning of Year</i>	0
<i>Net Position End of Year</i>	\$0

See accompanying notes to the basic financial statements

City of East Cleveland, Ohio
Notes to the Basic Financial Statements
For The Year Ended December 31, 2020

Note 1 – Description of the City and Reporting Entity

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

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

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

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

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

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

On October 9, 2012, the Auditor of State’s office declared the City of East Cleveland to be in a state of fiscal emergency in accordance with Section 118.03, Ohio Revised Code. The declaration resulted in the establishment of a Financial Planning and Supervision Commission. The Commission is comprised of the Mayor of the City, Council President, three financial consultants from various corporations and/or organizations within the City and two representatives from the State of Ohio. The City has 120 days after the first meeting of the Commission to approve a financial recovery plan. Once the plan has been adopted, the City’s discretion is limited in that all financial activity of the City must be in accordance with the plan. See Note 20 for more information on the City’s fiscal emergency status.

Reporting Entity

A reporting entity is comprised of the primary government, component units and other organizations that are included to ensure that the financial statements are not misleading. The primary government of the City consists of all funds, agencies, departments, and offices that are not legally separate from the City. For the City of East Cleveland, this includes the departments that provide the following services: police protection, firefighting and prevention, street maintenance and repairs, public improvements, community development (planning and zoning), culture and recreation, refuse collection, sewer and general administrative and legislative services. The City of Cleveland provides water to the residents of the City. The City of Cleveland bills the customers directly. The City contracts with the Northeast Ohio Regional Sewer District to provide sewage treatment for the City.

City of East Cleveland, Ohio
Notes to the Basic Financial Statements
For The Year Ended December 31, 2020

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

The City participates in the Northeast Ohio Public Energy Council and the Regional Income Tax Agency, jointly governed organizations. These organizations are presented in Note 22 to the basic financial statements.

Note 2 – Summary of Significant Accounting Policies

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

Basis of Presentation

The City's basic financial statements consist of government-wide statements, including a Statement of Net Position and a Statement of Activities, and fund financial statements, which provide a more detailed level of financial information.

Government-wide Financial Statements The Statement of Net Position and the Statement of Activities display information about the City as a whole. These statements include the financial activities of the primary government, except for fiduciary funds. The activity of the internal service fund is eliminated to avoid "doubling up" revenues and expenses. The statements distinguish between those activities of the City that are governmental and those that are considered business-type. The City, however, has no business-type activities.

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

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

City of East Cleveland, Ohio
Notes to the Basic Financial Statements
For The Year Ended December 31, 2020

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.

Coronavirus Relief Fund This fund accounts for and reports restricted federal grants for administrative costs of the Coronavirus Aid Relief and Economic Security (CARES) Act Grant.

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

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

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

Fiduciary Funds Fiduciary fund reporting focuses on net position and changes in net position. The fiduciary fund category is split into four classifications: pension (and other employee benefit) trust funds, investment trust funds, private purpose trust funds, and custodial funds. Trust funds are distinguished from custodial funds by the existence of a trust agreement or equivalent arrangement that has certain characteristics. The City does not have any trust funds. Custodial funds are used to report fiduciary activities that are not required to be reported in a trust fund. The City's only fiduciary fund is a custodial fund. The custodial fund is used for expenditures for the amounts collected by the municipal court that are paid to other governments.

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

City of East Cleveland, Ohio
Notes to the Basic Financial Statements
For The Year Ended December 31, 2020

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, internal service and fiduciary 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 this fund are included on the Statement of Fund Net Position. In fiduciary funds, a liability to the beneficiaries of fiduciary activity is recognized when an event has occurred that compels the government to disburse fiduciary resources. Fiduciary fund liabilities other than those to beneficiaries are recognized using the economic resources measurement focus.

For the internal service fund, the Statement of Revenues, Expenses and Changes in Fund Net Position presents increases (i.e., revenues) and decreases (i.e., expenses) in total net position. The Statement of Cash Flows provides information about how the City finances and meets the cash flow needs of its internal service fund.

Fiduciary funds present a Statement of Changes in Fiduciary Net Position which reports additions to and deductions from custodial funds.

Basis of Accounting

Basis of accounting determines when transactions are recorded in the financial records and reported on the financial statements. Government-wide financial statements and the statements presented for 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 resources to be used for a specified purpose, and expenditure requirements, in which the resources are provided to the City on a reimbursement basis. On the modified accrual basis, revenue from nonexchange transactions must also be available before it can be recognized.

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

City of East Cleveland, Ohio
Notes to the Basic Financial Statements
For The Year Ended December 31, 2020

Deferred Outflows/Inflows of Resources In addition to assets, the statements of financial position will sometimes report a separate section for deferred outflows of resources. Deferred outflows of resources, represents a consumption of net position that applies to a future period and will not be recognized as an outflow of resources (expense/expenditure) until then. For the City, deferred outflows of resources include asset retirement obligations, pension and OPEB reported on the government-wide Statement of Net Position. The deferred outflows of resources related to asset retirement obligations is originally measured at the amount of the corresponding liability. This amount is expensed in a systematic and rational manner over the tangible asset's useful life. The deferred outflows of resources related to pension and OPEB plans are explained in Notes 14 and 15.

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, pension, OPEB and unavailable revenue. Property taxes represent amounts for which there is an enforceable legal claim as of December 31, 2020, but which were levied to finance year 2021 operations. These amounts have been recorded as a deferred inflow on both the government-wide Statement of Net Position and the governmental fund financial statements. Unavailable revenue is reported only on the governmental funds balance sheet, and represents receivables which will not be collected within the available period. For the City unavailable revenue includes delinquent property taxes, income taxes, charges for services, intergovernmental grants, special assessments and fines and forfeitures. The details of these unavailable revenues are identified on the Reconciliation of Total Governmental Fund Balance to Net Position of Governmental Activities found on page 17. These amounts are deferred and recognized as an inflow of resources in the period the amounts become available. Deferred inflows of resources related to pension and OPEB plans are reported on the government-wide statement of net position (see Notes 14 and 15).

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.

Reclassifications Certain amounts in the prior year financial statements have been reclassified to conform with the presentation in the current year financial statements.

Pensions/Other Postemployment Benefits (OPEB)

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

Cash and Cash Equivalents

To improve cash management, cash received by the City is pooled. Monies for all funds are maintained in this pool. Individual fund integrity is maintained through City records. Interest in the pool is presented as "Equity in Pooled Cash and Cash Equivalents".

City of East Cleveland, Ohio
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The City has segregated bank accounts for monies held separate from the City's central bank account. These interest bearing depository accounts are presented as "cash and cash equivalents in segregated accounts" since they are not required to be deposited into the City Treasury.

During 2020, the City invested in STAR Ohio. STAR Ohio (the State Treasury Asset Reserve of Ohio), is an investment pool managed by the State Treasurer's Office which allows governments within the State to pool their funds for investment purposes. STAR Ohio is not registered with the SEC as an investment company, but has adopted Governmental Accounting Standards Board (GASB), Statement No. 79, "Certain External Investment Pools and Pool Participants." The City measures their investment in STAR Ohio at the net asset value (NAV) per share provided by STAR Ohio. The NAV per share is calculated on an amortized cost basis that provides an NAV per share that approximates fair value.

For 2020, there were no limitations or restrictions on any participant withdrawals due to redemption notice periods, liquidity fees, or redemption gates. However, notice must be given 24 hours in advance of all deposits and withdrawals exceeding \$100 million. STAR Ohio reserves the right to limit the transaction to \$100 million, requiring the excess amount to be transacted the following business day(s), but only to the \$100 million limit. All accounts of the participant will be combined for these purposes.

Under existing Ohio statutes all investment earnings are assigned to the general fund unless statutorily required to be credited to a specific fund. Interest revenue credited to the general fund during 2020 amounted to \$28,422, which includes \$9,100 assigned from other City funds.

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

Materials and Supplies 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.

Prepaid Items

Payments made to vendors for services that will benefit periods beyond December 31, 2020, 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.

Restricted Assets

Assets are reported as restricted when limitations on their use change in nature or normal understanding of the availability of the asset. Such constraints are either externally imposed by creditors, contributors, grantors or laws of other governments or imposed by law through constitutional provisions. Restricted assets in the general fund represent money set aside for distributions to the State of Ohio for residential and non-residential building standards. Restricted assets in the general fund represent deposits held.

Capital Assets

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

All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. Donated capital assets are recorded at their acquisition values as of the date received. The City was able to estimate the historical cost for the initial reporting of infrastructure by backtrending (i.e.,

City of East Cleveland, Ohio
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For The Year Ended December 31, 2020

estimating the current replacement cost of the infrastructure to be capitalized and using an appropriate price-level index to deflate the cost to the acquisition year or estimated acquisition year). The City maintains a capitalization threshold between \$5,000 to \$100,000 based upon asset category, except for land and land improvements where all costs are capitalized. Improvements are capitalized; the costs of normal maintenance and repairs that do not add to the value of the asset or materially extended an asset's life are not.

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

Description	Estimated Lives
Buildings and Improvements	10 - 40 years
Equipment	5 - 15 years
Vehicles	5 - 20 years
Infrastructure	5 - 100 years

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

Interfund Balances

On fund financial statements, receivables and payables resulting from short-term interfund loans are classified as "interfund receivables/payables." These amounts are eliminated in the governmental column of the Statement of Net Position.

Compensated Absences

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

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

Accrued Liabilities and Long-Term Obligations

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

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

City of East Cleveland, Ohio
Notes to the Basic Financial Statements
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Fund Balance

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

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

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

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

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

Assigned Amounts in the assigned fund balance classification are intended to be used by the City for specific purposes but do not meet the criteria to be classified as restricted or committed. In governmental funds other than the general fund, assigned fund balance represents the remaining amount that is not restricted or committed. These amounts are assigned by City Council. In the general fund, assigned amounts represent intended uses established by City Council or a City official delegated that authority by City Charter or ordinance, or by State Statute. City Council assigned fund balance to cover a gap between estimated revenues and appropriations in 2021’s budget.

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

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

City of East Cleveland, Ohio
Notes to the Basic Financial Statements
For The Year Ended December 31, 2020

Net Position

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

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

Operating Revenues and Expenses

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

Interfund Activity

Transfers between governmental activities are eliminated on the government-wide financial statements. Internal allocations of overhead expenses from one function to another or within the same function are eliminated on the Statement of Activities. Interfund payments for 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 nonoperating revenues/expenses in the internal service fund. Repayments from funds responsible for particular expenditures/expenses to the funds that initially paid for them are not presented on the financial statements.

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 custodial 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 personal services and other object level for all budgeted funds. Budgetary modifications at the legal level of control may only be made by resolution of Council.

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

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

Note 3 – Changes in Accounting Principle and Restatement of Net Position

Changes in Accounting Principles

For 2020, the City implemented the Governmental Accounting Standard Board’s (GASB) Statement No. 83, Certain Asset Retirement Obligations. GASB Statement 83 addresses accounting and financial reporting for certain asset retirement obligations (AROs). An ARO is a legally enforceable liability associated with the retirement of a tangible capital asset.

Restatement of Net Position

The implementation of GASB Statement No. 83 had the following effect on net position as of December 31, 2019:

	<u>Governmental Activities</u>
Net Position December 31, 2019	(\$22,241,159)
Adjustments:	
GASB Statement 83	<u>(104,133)</u>
Restated Net Position December 31, 2019	<u><u>(\$22,345,292)</u></u>

Note 4 – Compliance and Accountability

Compliance

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

The coronavirus relief special revenue fund had final appropriations in excess of final estimated resources plus carryover balances as reported on the Official Certificate of Estimated Resources of \$1,806,974 at December 31, 2020.

City of East Cleveland, Ohio
Notes to the Basic Financial Statements
For The Year Ended December 31, 2020

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

Fund	Amount
Special Revenue Funds:	
Street	\$301,457
Police Pension	17,812
Fire Pension	8,265
FEMA Grant	64,656
Coronavirus Relief	69,840
Community Development	82,017
VOCA Grant	9,382
ODJFS CSEF	16,232
School Resource Officers	61,433
Capital Projects Funds:	
Permanent Improvement	264,423

Although the appropriations and cash deficits were not corrected by year end, management has indicated that appropriations and cash balances will be closely monitored to prevent future violations.

Accountability

The following funds had deficit fund balances as of December 31, 2020:

Fund	Amount
Special Revenue Funds:	
Street	\$225,753
Police Pension	6,070
Fire Pension	3,430
FEMA Grant	100,387
Coronavirus Relief	70,679
Community Development	109,868
ODJFS CSEF	16,232
School Resource Officer	67,892
Capital Projects Funds:	
Permanent Improvement	206,215

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

Note 5 - 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 is presented on the budgetary basis to provide a meaningful comparison of actual results with the budget. The major differences between the budget basis and the GAAP basis are as follows:

City of East Cleveland, Ohio
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1. Revenues are recorded when received in cash (budget) as opposed to when susceptible to accrual (GAAP).
2. Expenditures are recorded when paid in cash (budget) as opposed to when the liability is incurred (GAAP).
3. Encumbrances are treated as expenditures (budget) rather than as restricted, committed or assigned fund balance (GAAP).
4. Unrecorded cash represents amounts received but not reported by the City on the operating statements (budget), but which is reported on the GAAP basis operating statements.
5. Advances in are operating transactions (budget) as opposed to balance sheet transactions (GAAP).
6. Budgetary revenues and expenditures of the water, sewer and sewer assessments funds are classified to general fund for GAAP Reporting.

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

Net Change in Fund Balance		
	General	Coronavirus Relief
GAAP Basis	\$3,739,687	(\$70,679)
Net Adjustment for Revenue Accruals	141,980	0
Net Adjustment for Expenditures Accruals	554,796	839
Beginning Unrecorded Cash	104,851	0
Ending Unrecorded Cash	(124,368)	0
Perspective Differences:		
Water	(13,764)	0
Sewer	(3,420)	0
Advances In	60,447	0
Encumbrances	(98,892)	(5,699)
Budget Basis	\$4,361,317	(\$75,539)

Note 6 – Fund Balances

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

City of East Cleveland, Ohio
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Fund Balances	General	Coronavirus Relief	Other Governmental Funds	Total
<u>Nonspendable:</u>				
Materials and Supplies Inventory	\$0	\$0	\$50,200	\$50,200
Prepays	13,736	0	0	13,736
Total Nonspendable	13,736	0	50,200	63,936
<u>Restricted for:</u>				
Police Programs	0	0	199,014	199,014
Court Programs	0	0	841,005	841,005
Community Development Programs	0	0	44,006	44,006
Debt Service	0	0	48,738	48,738
Other Purposes	0	0	156,466	156,466
Total Restricted	0	0	1,289,229	1,289,229
<u>Committed to:</u>				
Emergency Medical Services	0	0	886,661	886,661
<u>Assigned to:</u>				
Purchases on Order	95,888	0	0	95,888
2021 Operations	3,136,544	0	0	3,136,544
Total Assigned	3,232,432	0	0	3,232,432
Unassigned (Deficit)	2,787,415	(70,679)	(786,047)	1,930,689
Total Fund Balances (Deficit)	\$6,033,583	(\$70,679)	\$1,440,043	\$7,402,947

Note 7 – Deposits and Investments

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

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

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

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

Protection of the City's deposits is provided by the Federal Deposit Insurance Corporation (FDIC), by eligible securities pledged by the financial institution as security for repayment, or by the financial institution's participation in the Ohio Pooled Collateral System (OPCS), a collateral pool of eligible securities deposited with a qualified trustee and pledged to the Treasurer of State to secure the repayment of all public monies deposited in the financial institution.

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

City of East Cleveland, Ohio
Notes to the Basic Financial Statements
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1. United States Treasury bills, bonds notes, or any other obligation or security issued by the United States Treasury, or any other obligation guaranteed as to principal and interest by the United States;
2. Bonds, notes, debentures, or any other obligations or securities issued by any federal government agency or instrumentality, including, but not limited to, Federal National Mortgage Association, Federal Home Loan Bank, Federal Farm Credit Bank, Federal Home Loan Mortgage Corporation, and Government National Mortgage Association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;
3. No-load money market mutual funds consisting exclusively of obligations described in (1) or (2) and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions;
4. Time certificates of deposit or savings or deposit accounts including, but not limited to, passbook accounts;
5. Bonds and other obligations of the State of Ohio, and, with certain limitations including a requirement for maturity within ten years from the date of settlement, bonds and other obligations of political subdivisions of the State of Ohio, if training requirements have been met;
7. The State Treasurer's investment pool (STAR Ohio);
8. Certain bankers' acceptances (for a period not to exceed one hundred eighty days) and commercial paper notes (for a period not to exceed two hundred seventy days) in an amount not to exceed 40 percent of the interim monies available for investment at any one time if training requirements have been met; and
9. Written repurchase agreements in the securities described in (1) or (2) provided the market value of the securities subject to the repurchase agreement must exceed the principal value of the agreement by at least two percent and be marked to market daily, and the term of the agreement must not exceed thirty days.

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

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

Investments

As of December 31, 2020, the City had investments in STAR Ohio in the amount of \$7,668,770. The investments in STAR Ohio are valued at net asset value (NAV) per share and had an average maturity of 55.8 days as of December 31, 2020.

Credit Risk STAR Ohio carries a credit rating of AAAM by Standard & Poor's. Ohio law requires that STAR Ohio maintain the highest rating provided by at least one nationally recognized standard rating service. The City has no investment policy that addressed credit risk.

City of East Cleveland, Ohio
Notes to the Basic Financial Statements
For The Year Ended December 31, 2020

Note 8 – Receivables

Receivables at December 31, 2020, consisted primarily of municipal income taxes, property taxes, intergovernmental receivables arising from entitlements and shared revenues, and accounts (billings for user charged services, including unbilled utility services). All receivables are expected to be collected within one year except property taxes, income taxes and accounts receivable which have significant delinquencies and are expected to be collected over several years.

At December 31, 2020, the total amount of delinquent special assessments was \$85,441. These delinquencies will be collected in the general fund.

Property Taxes

Property taxes include amounts levied against all real, public utility and tangible personal property located in the City. Property tax revenue received during 2020 for real and public utility property taxes represents collections of 2019 taxes.

2020 real property taxes are levied after October 1, 2020 on the assessed value as of January 1, 2020, the lien date. Assessed values are established by state law at 35 percent of appraised market value. 2020 real property taxes are collected in and intended to finance 2021.

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. 2020 public utility property taxes which became a lien December 31, 2019, are levied after October 1, 2020, and are collected in 2021 with real property taxes.

The full tax rate for all City operations for the year ended December 31, 2020, was \$12.70 per \$1,000 of assessed value. The assessed values of real and tangible personal property upon which 2020 property tax receipts were based are as follows:

Real Estate	
Residential/Agriculture	\$45,640,950
Commercial Industrial/Public Utility	36,862,700
Tangible Personal Property	
Public Utility	<u>13,750,510</u>
Total Valuation	<u><u>\$96,254,160</u></u>

The County Fiscal Officer collects property taxes on behalf of all taxing districts in the County, including the City of East Cleveland, and periodically remits to the City its portion of the taxes collected. Property taxes receivable represents real property taxes, public utility taxes and outstanding delinquencies which are measurable as of December 31, 2020, and for which there is an enforceable legal claim. In governmental funds, the portion of the receivable not levied to finance 2020 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

City of East Cleveland, Ohio
Notes to the Basic Financial Statements
For The Year Ended December 31, 2020

of the City. The Regional Income Tax Agency administers and collects income taxes for the City. Payments are remitted monthly net of collection fees of approximately 1.71 percent. Employers within the City are required to withhold income tax on employee compensation and remit the tax to the Regional Income Tax Agency (RITA) at least quarterly. Corporations and other individual taxpayers are required to file a declaration annually and quarterly estimated tax payments are recommended. Taxes collected by RITA in one month are remitted to the City on the first and tenth business days of the following month. Income tax proceeds are received by the general fund.

Intergovernmental Receivables

A summary of intergovernmental receivables follows:

<u>Governmental Activities</u>	<u>Amount</u>
Local Government	\$989,733
Gas/Excise Tax	178,010
CDBG/Home Grants	124,591
FEMA Grant	70,826
Coronavirus Relief Grant	69,840
Homestead and Rollback	68,556
Northeast Ohio Regional Sewer District	63,433
School Resource Officer Grant	61,422
Permissive Tax	25,461
Motor Vehicle Tax	21,566
OCJS Grant	16,232
VOCA Grant	13,717
Total	<u>\$1,703,387</u>

Note 9 - Tax Abatements

As of December 31, 2020, the City provides tax abatements through two Community Reinvestment Areas.

Pursuant to Ohio Revised Code Chapter 5709, the City established two Community Reinvestment Areas to provide property tax abatements to encourage employment growth in the City. Abatements are obtained if the entity meets certain criteria outlined in the Community Reinvestment Area Agreement. The amount of the abatement is deducted from the recipient's tax bill. The values of the taxes being abated are \$4,599.

Note 10 – Leases

Operating Leases

The City has entered into two operating leases. The first one is with Mercantile Street Real Estate, Limited, for the purpose of leasing 3,300 square feet of a building in the City for storage facilities. This is a cancelable lease that is renewed annually. The other lease is with King Management Group (KMG), Limited, a related party (See Note 21). The purpose of the lease is for 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 \$3,545 per quarter. For all leases, the City must provide the lessor written notice at least 90 days prior to termination of the lease.

Capital Leases

The City has capital leases for a front loader and a John Deere tractor. 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 the present value of the minimum lease payments at the inception of the leases.

City of East Cleveland, Ohio
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For The Year Ended December 31, 2020

Governmental Activities:

Assets	
Vehicles	\$144,453
Equipment	203,996
<i>Total Capital Assets, Being Depreciated:</i>	<u>348,449</u>
Accumulated Depreciation	
Vehicles	43,336
Equipment	20,400
<i>Total Accumulated Depreciation</i>	<u>63,736</u>
<i>Governmental Activities Capital Assets, Net</i>	<u><u>\$284,713</u></u>

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, 2020.

Year	Amount
2021	\$48,287
2022	48,287
2023	48,287
2024	42,926
	<u>187,787</u>
Less: Amount representing interest	<u>(16,990)</u>
Present Value of minimum lease payments	<u><u>\$170,797</u></u>

For any payment which is not received by its due date, the City agreed to pay a late charge equal to 1.000% of the past due amount (not to exceed the maximum amount permitted by law) as reasonable collection costs, plus interest from the due date until paid at a rate of 1.5 percent per month, but in no event more than the maximum lawful rate. The leases are secured by the related property.

Note 11 - Capital Assets

Capital asset activity for the year ended December 31, 2020, was as follows:

	Balance 12/31/2019	Additions	Deductions	Balance 12/31/2020
Governmental Activities				
<i>Capital Assets not being Depreciated:</i>				
Land	\$656,760	\$0	\$0	\$656,760
Construction in Progress	0	9,506	0	9,506
<i>Total Capital Assets not being Depreciated</i>	<u>656,760</u>	<u>9,506</u>	<u>0</u>	<u>666,266</u>
<i>Capital Assets being Depreciated:</i>				
Buildings and Improvements	4,481,579	303,407	0	4,784,986
Equipment	4,386,144	504,467	0	4,890,611
Vehicles	5,980,705	133,531	0	6,114,236
Infrastructure	26,079,473	111,612	0	26,191,085
<i>Total Capital Assets being Depreciated</i>	<u>40,927,901</u>	<u>1,053,017</u>	<u>0</u>	<u>41,980,918</u>
<i>Less Accumulated Depreciation:</i>				
Buildings and Improvements	(3,762,187)	(56,817)	0	(3,819,004)
Equipment	(3,895,088)	(198,821)	0	(4,093,909)
Vehicles	(4,899,361)	(283,610)	0	(5,182,971)
Infrastructure	(10,293,218)	(479,367)	0	(10,772,585)
<i>Total Accumulated Depreciation</i>	<u>(22,849,854)</u>	<u>(1,018,615)</u>	<u>0</u>	<u>(23,868,469)</u>
Total Capital Assets being Depreciated, Net	<u>18,078,047</u>	<u>34,402</u>	<u>0</u>	<u>18,112,449</u>
Governmental Activities Capital Assets, Net	<u><u>\$18,734,807</u></u>	<u><u>\$43,908</u></u>	<u><u>\$0</u></u>	<u><u>\$18,778,715</u></u>

City of East Cleveland, Ohio
Notes to the Basic Financial Statements
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Depreciation expense was charged to governmental functions as follows:

General Government	\$313,437
Security of Persons and Property	233,008
Leisure Time Activities	3,534
Basic Utility Services	110
Community Environment	4,892
Transportation	463,634
Total Depreciation Expense	<u><u>\$1,018,615</u></u>

Note 12 – Employee Benefits

Compensated Absences

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

Health Care Benefits

Since 2014, the City has been self-insured for health care benefits for City employees. The City contracts with a third party administrator, Mutual Health Services, for medical, dental and vision claims. The City continues to provide coverage to eligible employees in a four-tiered rate structure as follows:

	Hospital	Dental	Vision
Single	\$185.34	\$3.69	\$1.07
Employee and Spouse	\$272.18	\$3.69	\$1.07
Employee and One Child	\$304.36	\$3.69	\$1.07
Family	\$395.61	\$3.69	\$1.07

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		
<i>OPWC Loans from Direct Borrowings :</i>		
2003 Euclid Avenue Rehabilitation	\$2,951,444	2044
2006 Windermere/Idlewood/Knowles Road	977,988	2044
1997 Water Main Project Phase II	375,277	2044
2000 Brunswick Road Water Main Improvement Project	23,164	2044
2000 Forest Hills Water Main Project	25,442	2044
2008 Belmore Street Waterline Repair Project	102,014	2044
2011 Coit Avenue Sanitary Sewer Replacement	79,551	2044

City of East Cleveland, Ohio
Notes to the Basic Financial Statements
For The Year Ended December 31, 2020

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 2020 follows:

	Restated Outstanding 12/31/2019	Additions	(Reductions)	Outstanding 12/31/2020	Due in One Year
Governmental Activities					
<i>OPWC Loans from Direct Borrowings:</i>					
Euclid Avenue Rehabilitation	\$1,626,984	\$0	(\$33,204)	\$1,593,780	\$66,408
Windemere/ Idlewood/ Knowles Road	579,050	0	(11,817)	567,233	23,634
Water Main Project Phase II	48,391	0	(988)	47,403	1,976
Brunswick Road Water Main Improvement Project	5,202	0	(106)	5,096	212
Forest Hills Water Main Project	6,233	0	(127)	6,106	254
Belmore Road Waterline Repair Project	68,732	0	(1,403)	67,329	2,806
Coit Avenue Sanitary Sewer Replacement	53,597	0	(1,094)	52,503	2,188
<i>Total OPWC Loans</i>	<u>2,388,189</u>	<u>0</u>	<u>(48,739)</u>	<u>2,339,450</u>	<u>97,478</u>
<i>Other Long-Term Obligations:</i>					
Net Pension Liability					
OPERS	3,082,517	0	(1,034,003)	2,048,514	0
OP&F	12,438,072	0	(1,441,766)	10,996,306	0
<i>Total Net Pension Liability</i>	<u>15,520,589</u>	<u>0</u>	<u>(2,475,769)</u>	<u>13,044,820</u>	<u>0</u>
Net OPEB Liability					
OPERS	1,474,166	0	(31,301)	1,442,865	0
OP&F	1,387,636	224,744	0	1,612,380	0
<i>Total Net OPEB Liability</i>	<u>2,861,802</u>	<u>224,744</u>	<u>(31,301)</u>	<u>3,055,245</u>	<u>0</u>
Capital Leases	210,721	0	(39,924)	170,797	41,490
Asset Retirement Obligation	110,000	0	0	110,000	0
Police and Fire Pension Liability	1,051,752	0	(49,305)	1,002,447	51,428
Compensated Absences	1,006,988	556,722	(423,993)	1,139,717	408,408
Judgments Payable	31,129,438	0	(40,833)	31,088,605	4,167
<i>Total Other Long-Term Obligations</i>	<u>51,891,290</u>	<u>781,466</u>	<u>(3,061,125)</u>	<u>49,611,631</u>	<u>505,493</u>
Total Governmental Activities	<u>\$54,279,479</u>	<u>\$781,466</u>	<u>(\$3,109,864)</u>	<u>\$51,951,081</u>	<u>\$602,971</u>

OPWC loans will be paid from the debt service fund. Capital leases will be paid from the permanent improvement capital projects fund. The asset retirement obligation will be paid from the street, construction, maintenance and repair special revenue 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, street, EMS, FEMA grant, community development block grant and school resource officer funds. Judgments payable will be paid from the general fund.

There is no repayment schedule for the net pension/OPEB liabilities. However, employer pension/OPEB contributions are made from the following funds: general, police accrued liability, fire accrued liability, EMS, COPS grant, community development and VOCA grant. For additional information related to the net pension/OPEB liabilities see Notes 14 and 15.

The City's outstanding OPWC loans from direct borrowings related to governmental activities of \$2,339,450 contain provisions that in the event of default (1) OPWC may apply late fees of 8 percent per year, (2) loans more than 60 days late will be turned over to the Attorney General's office for collection, and as provided by law, OPWC may require that such payment be taken from the City's share of the county undivided local government fund, and (3) the outstanding amounts shall, at OPWC's option, become immediately due and payable.

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

The City's overall legal debt margin was \$7,807,568 at December 31, 2020. Principal and interest requirements to retire long-term obligations outstanding at December 31, 2020, are as follows:

	Governmental Activities		
	Police and Fire Liability		From Direct Borrowings
			OPWC Loans
	Principal	Interest	Principal
2021	\$51,428	\$42,168	\$97,478
2022	53,641	39,955	97,478
2023	55,954	37,644	97,478
2024	58,360	35,236	97,478
2025	60,874	32,722	97,478
2026-2030	346,016	121,966	487,390
2031-2035	376,174	40,858	487,390
2036-2040	0	0	487,390
2041-2045	0	0	389,890
Total	\$1,002,447	\$350,549	\$2,339,450

Note 14 – Defined Benefit Pension Plans

The Statewide retirement systems provide both pension benefits and other postemployment benefits (OPEB).

Net Pension Liability /Net OPEB Liability

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

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

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

GASB 68/75 assumes the liability is solely the obligation of the employer, because (1) they benefit from employee services; and (2) State statute requires funding to come from these employers. All pension contributions to date have come solely from these employers (which also includes pension costs paid in the

City of East Cleveland, Ohio
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form of withholdings from employees). The retirement systems may allocate a portion of the employer contributions to provide for these OPEB benefits. In addition, health care plan enrollees pay a portion of the health care costs in the form of a monthly premium. State statute requires the retirement systems to amortize unfunded pension liabilities within 30 years. If the pension amortization period exceeds 30 years, each retirement system's board must propose corrective action to the State legislature. Any resulting legislative change to benefits or funding could significantly affect the net pension/OPEB liability. Resulting adjustments to the net pension/OPEB liability would be effective when the changes are legally enforceable. The Ohio revised Code permits, but does not require the retirement systems to provide healthcare to eligible benefit recipients.

The proportionate share of each plan's unfunded benefits is presented as a *net pension/OPEB asset* or a long-term *net pension/OPEB liability* on the accrual basis of accounting. Any liability for the contractually-required pension/OPEB contribution outstanding at the end of the year is included in *intergovernmental payable* on both the accrual and modified accrual bases of accounting. The remainder of this note includes the required pension disclosures. See Note 15 for the required OPEB disclosures.

Plan Description – Ohio Public Employees Retirement System (OPERS)

City employees, other than full-time police and firefighters, participate in the Ohio Public Employees Retirement System (OPERS). OPERS administers three separate pension plans. The traditional pension plan is a cost-sharing, multiple-employer defined benefit pension plan. The member-directed plan is a defined contribution plan and the combined plan is a combination cost-sharing, multiple-employer defined benefit/defined contribution pension plan. Participating employers are divided into state, local, law enforcement and public safety divisions. While members in the state and local divisions may participate in all three plans, law enforcement and public safety divisions exist only within the traditional plan.

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

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

City of East Cleveland, Ohio
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Group A	Group B	Group C
Eligible to retire prior to January 7, 2013 or five years after January 7, 2013	20 years of service credit prior to January 7, 2013 or eligible to retire ten years after January 7, 2013	Members not in other Groups and members hired on or after January 7, 2013
State and Local	State and Local	State and Local
Age and Service Requirements: Age 60 with 60 months of service credit or Age 55 with 25 years of service credit	Age and Service Requirements: Age 60 with 60 months of service credit or Age 55 with 25 years of service credit	Age and Service Requirements: Age 57 with 25 years of service credit or Age 62 with 5 years of service credit
Traditional Plan Formula: 2.2% of FAS multiplied by years of service for the first 30 years and 2.5% for service years in excess of 30	Traditional Plan Formula: 2.2% of FAS multiplied by years of service for the first 30 years and 2.5% for service years in excess of 30	Traditional Plan Formula: 2.2% of FAS multiplied by years of service for the first 35 years and 2.5% for service years in excess of 35
Combined Plan Formula: 1% of FAS multiplied by years of service for the first 30 years and 1.25% for service years in excess of 30	Combined Plan Formula: 1% of FAS multiplied by years of service for the first 30 years and 1.25% for service years in excess of 30	Combined Plan Formula: 1% of FAS multiplied by years of service for the first 35 years and 1.25% for service years in excess of 35

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

Members who retire before meeting the age and years of service credit requirement for unreduced benefits receive a percentage reduction in the benefit amount. The initial amount of a member's pension benefit is vested upon receipt of the initial benefit payment for calculation of an annual cost-of-living adjustment.

When a traditional plan benefit recipient has received benefits for 12 months, current law provides for an annual cost of living adjustment (COLA). This COLA is calculated on the base retirement benefit at the date of retirement and is not compounded. Members retiring under the combined plan receive a cost-of-living adjustment on the defined benefit portion of their pension benefit. For those who retired prior to January 7, 2013, the cost of living adjustment is 3 percent. For those retiring subsequent to January 7, 2013, beginning in calendar year 2019, current law provides that the COLA will be based on the average percentage increase in the Consumer Price Index, capped at 3 percent.

Defined contribution plan benefits are established in the plan documents, which may be amended by the OPERS Board. Member-directed plan and combined plan members who have met the retirement eligibility requirements may apply for retirement benefits. The amount available for defined contribution benefits in the combined plan consists of the member's contributions plus or minus the investment gains or losses resulting from the member's investment selections. Combined plan members wishing to receive benefits must meet the requirements for both the defined benefit and defined contribution plans. Member-directed participants must have attained the age of 55, have money on deposit in the defined contribution plan and have terminated public service to apply for retirement benefits. The amount available for defined contribution benefits in the member-directed plan consists of the members' contributions, vested employer contributions and investment gains or losses resulting from the members' investment selections. Employer contributions and associated investment earnings vest over a five-year period, at a rate of 20 percent each year. At retirement, members may select one of several distribution options for payment of the vested balance in their individual OPERS accounts. Options include the annuitization of the benefit (which includes joint and survivor options), partial lump-sum payments (subject to limitations), a rollover of the vested account balance to another financial institution, receipt of entire account balance, net of taxes withheld, or a combination of these options.

Beginning in 2022, the Combined Plan will be consolidated under the Traditional Pension Plan (defined benefit plan) and the Combined Plan option will no longer be available for new hires beginning in 2022.

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

	State and Local
2020 Statutory Maximum Contribution Rates	
Employer	14.0 %
Employee *	10.0 %
 2020 Actual Contribution Rates	
Employer:	
Pension **	14.0 %
Post-employment Health Care Benefits **	0.0
Total Employer	14.0 %
 Employee	 10.0 %

* Member contributions within the combined plan are not used to fund the defined benefit retirement allowance.

** These pension and employer health care rates are for the traditional and combined plans. The employer contributions rate for the member-directed plan is allocated 4 percent for health care with the remainder going to pension.

Employer contribution rates are actuarially determined and are expressed as a percentage of covered payroll.

For 2020, The City's contractually required contribution was \$233,019 for the traditional plan and \$17,241 for the member-directed plan. Of these amounts, \$34,526 is reported as an intergovernmental payable for the traditional plan and \$2,555 for the member-directed plan.

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

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

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

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

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The annual pension benefit for normal service retirement is equal to a percentage of the allowable average annual salary. The percentage equals 2.5 percent for each of the first 20 years of service credit, 2.0 percent for each of the next five years of service credit and 1.5 percent for each year of service credit in excess of 25 years. The maximum pension of 72 percent of the allowable average annual salary is paid after 33 years of service credit (see OP&F Comprehensive Annual Financial Report referenced above for additional information, including requirements for Deferred Retirement Option Plan provisions and reduced and unreduced benefits).

Under normal service retirement, retired members who are at least 55 years old and have been receiving OP&F benefits for at least one year may be eligible for a cost-of-living allowance adjustment. The age 55 provision for receiving a COLA does not apply to those who are receiving a permanent and total disability benefit, surviving beneficiaries, and statutory survivors. Members participating in the deferred retirement option plan (DROP) program have separate eligibility requirements related to COLA.

Members retiring under normal service retirement, with less than 15 years of service credit on July 1, 2013, will receive a COLA equal to either three percent or the percent increase, if any, in the consumer price index over the 12 month period ending on September 30th of the immediately preceding year, whichever is less. The COLA amount for members with at least 15 years of service credit as of July 1, 2013, is equal to 3 percent of their base pension or disability benefit.

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

	Police	Firefighters
2020 Statutory Maximum Contribution Rates		
Employer	19.50 %	24.00 %
Employee	12.25 %	12.25 %
 2020 Actual Contribution Rates		
Employer:		
Pension	19.00 %	23.50 %
Post-employment Health Care Benefits	0.50	0.50
Total Employer	19.50 %	24.00 %
Employee	12.25 %	12.25 %

Employer contribution rates are expressed as a percentage of covered payroll. The City’s contractually required contribution to OP&F was \$861,754 for 2020. Of this amount, \$130,874 is reported as an intergovernmental payable.

In addition to current contributions, the City pays installments on a specific liability the City incurred when the State of Ohio established the statewide pension system for police and fire fighters in 1967. As of December 31, 2020, the specific liability of the City was \$1,002,447 payable in semi-annual payments through the year 2035.

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

The net pension liability for OPERS was measured as of December 31, 2019, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. OP&F’s

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total pension liability was measured as of December 31, 2019, and was determined by rolling forward the total pension liability as of January 1, 2019, to December 31, 2019. The City's proportion of the net pension liability was based on the City's share of contributions to the pension plan relative to the contributions of all participating entities. Following is information related to the proportionate share and pension expense of the City's defined benefit pension plans:

	OPERS		
	<u>Traditional Plan</u>	<u>OP&F</u>	<u>Total</u>
Proportion of the Net Pension Liability:			
Current Measurement Date	0.0103640%	0.1632339%	
Prior Measurement Date	<u>0.0112550%</u>	<u>0.1523780%</u>	
Change in Proportionate Share	<u>-0.0008910%</u>	<u>0.0108559%</u>	
Proportionate Share of the:			
Net Pension Liability	\$2,048,514	\$10,996,306	\$13,044,820
Pension Expense	(42,207)	1,265,502	1,223,295

2020 pension expense for the member-directed defined contribution plan was \$12,314. The aggregate pension expense for all pension plans was \$1,235,609 for 2020.

At December 31, 2020, the City reported deferred outflows of resources and deferred inflows of resources related to defined benefit pensions from the following sources:

	OPERS		
	<u>Traditional Plan</u>	<u>OP&F</u>	<u>Total</u>
Deferred Outflows of Resources			
Differences between expected and actual experience	\$0	\$416,245	\$416,245
Changes of assumptions	109,414	269,931	379,345
Changes in proportion and differences between City contributions and proportionate share of contributions	0	1,334,845	1,334,845
City contributions subsequent to the measurement date	<u>233,019</u>	<u>861,754</u>	<u>1,094,773</u>
Total Deferred Outflows of Resources	<u>\$342,433</u>	<u>\$2,882,775</u>	<u>\$3,225,208</u>
Deferred Inflows of Resources			
Differences between expected and actual experience	\$25,901	\$567,124	\$593,025
Net difference between projected and actual earnings on pension plan investments	408,633	531,210	939,843
Changes in proportion and differences between City contributions and proportionate share of contributions	<u>210,465</u>	<u>1,459,927</u>	<u>1,670,392</u>
Total Deferred Inflows of Resources	<u>\$644,999</u>	<u>\$2,558,261</u>	<u>\$3,203,260</u>

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\$1,094,773 reported as deferred outflows of resources related to pension resulting from City contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pension will be recognized in pension expense as follows:

	OPERS Traditional Plan	OP&F	Total
Year Ending December 31:			
2021	(\$216,358)	(\$255,719)	(\$472,077)
2022	(173,894)	(390,749)	(564,643)
2023	16,921	429,199	446,120
2024	(162,254)	(322,063)	(484,317)
2025	0	2,092	2,092
Total	(\$535,585)	(\$537,240)	(\$1,072,825)

Actuarial Assumptions - OPERS

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

Projections of benefits for financial-reporting purposes are based on the substantive plan (the plan as understood by the employers and plan members) and include the types of benefits provided at the time of each valuation. The total pension liability was determined by an actuarial valuation as of December 31, 2019, using the following actuarial assumptions applied to all periods included in the measurement in accordance with the requirements of GASB 67. Key methods and assumptions used in the latest actuarial valuation, reflecting experience study results, prepared as of December 31, 2019, are presented below.

	OPERS Traditional Plan	OPERS Combined Plan
Wage Inflation	3.25 percent	3.25 percent
Future Salary Increases, including inflation	3.25 to 10.75 percent including wage inflation	3.25 to 8.25 percent including wage inflation
COLA or Ad Hoc COLA:		
Pre-January 7, 2013 Retirees	3 percent, simple	3 percent, simple
Post-January 7, 2013 Retirees	1.4 percent, simple through 2020, then 2.15 percent, simple	1.4 percent, simple through 2020, then 2.15 percent, simple
Investment Rate of Return	7.2 percent	7.2 percent
Actuarial Cost Method	Individual Entry Age	Individual Entry Age

In October 2019, the OPERS Board adopted a change in COLA for Post-January 7, 2013 retirees, changing it from 3 percent simple through 2018 then 2.15 simple to 1.4 percent simple through 2020 the 2.15 percent simple.

Pre-retirement mortality rates are based on the RP-2014 Employees mortality table for males and females, adjusted for mortality improvement back to the observation period base year of 2006. The base year for males and females was then established to be 2015 and 2010, respectively. Post-retirement mortality rates are based

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on the RP-2014 Healthy Annuitant mortality table for males and females, adjusted for mortality improvement back to the observation period base year of 2006. The base year for males and females was then established to be 2015 and 2010, respectively. Post-retirement mortality rates for disabled retirees are based on the RP-2014 Disabled mortality table for males and females, adjusted for mortality improvement back to the observation period base year of 2006. The base year for males and females was then established to be 2015 and 2010, respectively. Mortality rates for a particular calendar year are determined by applying the MP-2015 mortality improvement scale to all of the above described tables.

The most recent experience study was completed for the five year period ended December 31, 2015.

During 2019, OPERS managed investments in three investment portfolios: the Defined Benefit portfolio, the Health Care portfolio, and the Defined Contribution portfolio. The Defined Benefit portfolio contains the investment assets for the Traditional Pension Plan, the defined benefit component of the Combined Plan and the annuitized accounts of the Member-Directed Plan. Within the Defined Benefit portfolio, contributions into the plans are all recorded at the same time, and benefit payments all occur on the first of the month. Accordingly, the money-weighted rate of return is considered to be the same for all plans within the portfolio. The annual money-weighted rate of return expressing investment performance, net of investment expenses and adjusted for the changing amounts actually invested, for the Defined Benefit portfolio was 17.2 percent for 2019.

The allocation of investment assets with the Defined Benefit portfolio is approved by the Board of Trustees as outlined in the annual investment plan. Plan assets are managed on a total return basis with a long-term objective of achieving and maintaining a fully funded status for the benefits provided through the defined benefit pension plans. The long-term expected rate of return on defined benefit investment assets was determined using a building-block method in which best-estimate ranges of expected future real rates of return are developed for each major asset class. These ranges are combined to produce the long-term expected real rate of return by weighting the expected future real rates of return by the target asset allocation percentage, adjusted for inflation. Best estimates of arithmetic real rates of return were provided by the Board's investment consultant. For each major asset class that is included in the Defined Benefit portfolio's target asset allocation as of December 31, 2019, these best estimates are summarized in the following table:

Asset Class	Target Allocation	Weighted Average Long-Term Expected Real Rate of Return (Arithmetic)
Fixed Income	25.00 %	1.83 %
Domestic Equities	19.00	5.75
Real Estate	10.00	5.20
Private Equity	12.00	10.70
International Equities	21.00	7.66
Other investments	13.00	4.98
Total	100.00 %	5.61 %

Discount Rate The discount rate used to measure the total pension liability was 7.2 percent for the traditional plan, the member-directed plan and the combined plan. The projection of cash flows used to determine the discount rate assumed that contributions from plan members and those of the contributing employers are made at the contractually required rates, as actuarially determined. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefits payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments for the traditional pension plan, combined plan and member-directed plan was applied to all periods of projected benefit payments to determine the total pension liability.

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Sensitivity of the City's Proportionate Share of the Net Pension Liability (Asset) to Changes in the Discount Rate The following table presents the City's proportionate share of the net pension liability (asset) calculated using the current period discount rate assumption of 7.2 percent, as well as what the City's proportionate share of the net pension liability (asset) would be if it were calculated using a discount rate that is one-percentage-point lower (6.2 percent) or one-percentage-point higher (8.2 percent) than the current rate:

	1% Decrease (6.20%)	Current Discount Rate (7.20%)	1% Increase (8.20%)
City's proportionate share of the net pension liability (asset)			
OPERS Traditional Plan	\$3,378,664	\$2,048,514	\$852,750

Actuarial Assumptions – OP&F

OP&F's total pension liability as of December 31, 2019, is based on the results of an actuarial valuation date of January 1, 2019, and rolled-forward using generally accepted actuarial procedures. The total pension liability is determined by OP&F's actuaries in accordance with GASB Statement No. 67, as part of their annual valuation. Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about probability of occurrence of events far into the future. Examples include assumptions about future employment mortality, salary increases, disabilities, retirements and employment terminations. Actuarially determined amounts are subject to continual review and potential modifications, as actual results are compared with past expectations and new estimates are made about the future. Assumptions considered were: withdrawal rates, disability retirement, service retirement, DROP elections, mortality, percent married and forms of the payment, DROP interest rate, CPI-based COLA, investment returns, salary increases and payroll growth.

Key methods and assumptions used in the latest actuarial valuation, reflecting experience study results, prepared as of January 1, 2019, are presented below.

Valuation Date	January 1, 2019, with actuarial liabilities rolled forward to December 31, 2019
Actuarial Cost Method	Entry Age Normal
Investment Rate of Return	8.0 percent
Projected Salary Increases	3.75 percent to 10.5 percent
Payroll Growth	3.25 percent per annum, compounded annually, consisting of Inflation rate of 2.75 percent plus productivity increase rate of 0.5 percent
Cost of Living Adjustments	3.00 percent simple; 2.2 percent simple for increases based on the lesser of the increase in CPI and 3 percent

Mortality for non-disabled participants is based on the RP-2014 Total Employee and Healthy Annuitant Mortality Tables rolled back to 2006, adjusted according to the rates in the following table, and projected with the Buck Modified 2016 Improvement Scale. Rates for surviving beneficiaries are adjusted by 120 percent.

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Age	Police	Fire
67 or less	77 %	68 %
68-77	105	87
78 and up	115	120

Mortality for disabled retirees is based on the RP-2014 Disabled Mortality Tables rolled back to 2006, adjusted according to the rates in the following table, and projected with the Buck Modified 2016 Improvement Scale.

Age	Police	Fire
59 or less	35 %	35 %
60-69	60	45
70-79	75	70
80 and up	100	90

The most recent experience study was completed for the five year period ended December 31, 2016.

The long-term expected rate of return on pension plan investments was determined using a building-block approach and assumes a time horizon, as defined in the Statement of Investment Policy. A forecasted rate of inflation serves as the baseline for the return expected. Various real return premiums over the baseline inflation rate have been established for each asset class. The long-term expected nominal rate of return has been determined by calculating a weighted averaged of the expected real return premiums for each asset class, adding the projected inflation rate and adding the expected return from rebalancing uncorrelated asset classes. Best estimates of the long-term expected geometric real rates of return for each major asset class included in OP&F's target asset allocation as of December 31, 2019, are summarized below:

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Cash and Cash Equivalents	0.00 %	1.00 %
Domestic Equity	16.00	5.40
Non-US Equity	16.00	5.80
Private Markets	8.00	8.00
Core Fixed Income *	23.00	2.70
High Yield Fixed Income	7.00	4.70
Private Credit	5.00	5.50
U.S. Inflation Linked Bonds*	17.00	2.50
Master Limited Partnerships	8.00	6.60
Real Assets	8.00	7.40
Private Real Estate	12.00	6.40
Total	120.00 %	

Note: Assumptions are geometric.

* levered 2x

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

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Discount Rate The total pension liability was calculated using the discount rate of 8.00 percent. The projection of cash flows used to determine the discount rate assumed the contributions from employers and from the members would be computed based on contribution requirements as stipulated by State statute. Projected inflows from investment earning were calculated using the longer-term assumed investment rate of return of 8.00 percent. Based on those assumptions, the plan’s fiduciary net position was projected to be available to make all future benefit payments of current plan members. Therefore, a long-term expected rate of return on pension plan investments was applied to all periods of projected benefits to determine the total pension liability.

Sensitivity of the City's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate Net pension liability is sensitive to changes in the discount rate, and to illustrate the potential impact, the following table presents the net pension liability calculated using the discount rate of 8.00 percent, as well as what the net pension liability would be if it were calculated using a discount rate that is one percentage point lower (7.00 percent), or one percentage point higher (9.00 percent) than the current rate.

	1% Decrease (7.00%)	Current Discount Rate (8.00%)	1% Increase (9.00%)
City's proportionate share of the net pension liability	\$15,240,500	\$10,996,306	\$7,446,461

Note 15 – Defined Benefit OPEB Plans

See Note 14 for a description of the net OPEB liability

Plan Description – Ohio Public Employees Retirement System (OPERS)

The Ohio Public Employees Retirement System (OPERS) administers three separate pension plans: the traditional pension plan, a cost-sharing, multiple-employer defined benefit pension plan; the member-directed plan, a defined contribution plan; and the combined plan, a cost-sharing, multiple-employer defined benefit pension plan that has elements of both a defined benefit and defined contribution plan.

OPERS maintains a cost-sharing, multiple-employer defined benefit postemployment health care trust, which funds multiple health care plans including medical coverage, prescription drug coverage and deposits to a Health Reimbursement Arrangement to qualifying benefit recipients of both the traditional pension and the combined plans. This trust is also used to fund health care for member-directed plan participants, in the form of a Retiree Medical Account (RMA). At retirement or separation, member-directed plan participants may be eligible for reimbursement of qualified medical expenses from their vested RMA balance.

In order to qualify for postemployment health care coverage, age and service retirees under the traditional pension and combined plans must have twenty or more years of qualifying Ohio service credit with a minimum age of 60, or generally 30 years of qualifying service at any age. Health care coverage for disability benefit recipients and qualified survivor benefit recipients is available. The health care coverage provided by OPERS meets the definition of an Other Post Employment Benefit (OPEB) as described in GASB Statement 75. See OPERS Comprehensive Annual Financial Report referenced below for additional information.

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

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

Funding Policy - The Ohio Revised Code provides the statutory authority allowing public employers to fund postemployment health care through their contributions to OPERS. When funding is approved by OPERS' Board of Trustees, a portion of each employer's contribution to OPERS is set aside to fund OPERS health care plans. Beginning in 2018, OPERS no longer allocated a portion of its employer contributions to health care for the traditional plan and the combined plan

Employer contribution rates are expressed as a percentage of the earnable salary of active members. In 2020, state and local employers contributed at a rate of 14.0 percent of earnable salary and public safety and law enforcement employers contributed at 18.1 percent. These are the maximum employer contribution rates permitted by the Ohio Revised Code. Active member contributions do not fund health care.

Each year, the OPERS Board determines the portion of the employer contribution rate that will be set aside to fund health care plans. For 2020, OPERS did not allocate any employer contribution to health care for members in the Traditional Pension Plan and Combined Plan. The OPERS Board is also authorized to establish rules for the retiree or their surviving beneficiaries to pay a portion of the health care provided. Payment amounts vary depending on the number of covered dependents and the coverage selected. The employer contribution as a percentage of covered payroll deposited into the RMA for participants in the member-directed plan for 2020 was 4.0 percent.

Employer contribution rates are actuarially determined and are expressed as a percentage of covered payroll. The City's contractually required contribution was \$4,926 for 2020. Of this amount, \$730 is reported as an intergovernmental payable.

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

The City contributes to the Ohio Police and Fire Pension Fund (OP&F) sponsored healthcare program, a cost-sharing, multiple-employer defined post-employment health care plan administered by a third-party provider. This program is not guaranteed and is subject to change at any time upon action of the Board of Trustees. On January 1, 2019, OP&F implemented a new model for health care. Under this new model, OP&F provides eligible retirees with a fixed stipend earmarked to pay for health care and Medicare Part B reimbursements.

A retiree is eligible for the OP&F health care stipend unless they have access to any other group coverage including employer and retirement coverage. The eligibility of spouses and dependent children could increase the stipend amount. If the spouse or dependents have access to any other group coverage including employer or retirement coverage, they are not eligible for stipend support from OP&F. Even if an OP&F member or their dependents are not eligible for a stipend, they can use the services of the third-party administrator to select and enroll in a plan. The stipend provided by OP&F meets the definition of an Other Post Employment Benefit (OPEB) as described in Governmental Accounting Standards Board (GASB) Statement No. 75.

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. The report may be obtained by visiting the OP&F website at www.op-f.org or by writing to the Ohio Police and Fire Pension Fund, 140 East Town Street, Columbus, Ohio 43215-5164.

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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 to contribute to the pension plan at rates expressed as percentages of the payroll of active pension plan members, currently 19.5 percent and 24 percent of covered payroll for police and fire employer units, respectively. The Ohio Revised Code states that the employer contribution may not exceed 19.5 percent of covered payroll for police employer units and 24 percent of covered payroll for fire employer units. Active members do not make contributions to the OPEB Plan.

The Board of Trustees is authorized to allocate a portion of the total employer contributions for retiree health care benefits. For 2020, the portion of employer contributions allocated to health care was 0.5 percent of covered payroll. The amount of employer contributions allocated to the health care plan each year is subject to the Trustees’ primary responsibility to ensure that pension benefits are adequately funded.

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

The City’s contractually required contribution to OP&F was \$20,396 for 2020. Of this amount, \$3,156 is reported as an intergovernmental payable.

OPEB Liabilities, OPEB Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB

The net OPEB liability and total OPEB liability for OPERS were determined by an actuarial valuation as of December 31, 2018, rolled forward to the measurement date of December 31, 2019, by incorporating the expected value of health care cost accruals, the actual health care payment, and interest accruals during the year. OP&F’s total OPEB liability was measured as of December 31, 2019, and was determined by rolling forward the total OPEB liability as of January 1, 2019, to December 31, 2019. The City’s proportion of the net OPEB liability was based on the City’s share of contributions to the retirement plan relative to the contributions of all participating entities. Following is information related to the proportionate share and OPEB expense:

	<u>OPERS</u>	<u>OP&F</u>	
Proportion of the Net OPEB Liability:			
Current Measurement Date	0.0104460%	0.1632339%	
Prior Measurement Date	<u>0.0113070%</u>	<u>0.1523780%</u>	
Change in Proportionate Share	<u>-0.0008610%</u>	<u>0.0108559%</u>	
			<u>Total</u>
Proportionate Share of the Net OPEB Liability	\$1,442,865	\$1,612,380	\$3,055,245
OPEB Expense	(\$46,567)	\$262,491	\$215,924

At December 31, 2020, the City reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

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	<u>OPERS</u>	<u>OP&F</u>	<u>Total</u>
Deferred Outflows of Resources			
Differences between expected and actual experience	\$39	\$0	\$39
Changes of assumptions	228,390	942,659	1,171,049
Changes in proportion and differences between City contributions and proportionate share of contributions	0	511,038	511,038
City contributions subsequent to the measurement date	<u>4,926</u>	<u>20,396</u>	<u>25,322</u>
Total Deferred Outflows of Resources	<u>\$233,355</u>	<u>\$1,474,093</u>	<u>\$1,707,448</u>
Deferred Inflows of Resources			
Differences between expected and actual experience	\$131,956	\$173,396	\$305,352
Changes of assumptions	0	343,622	343,622
Net difference between projected and actual earnings on OPEB plan investments	73,470	74,196	147,666
Changes in proportion and differences between City contributions and proportionate share of contributions	<u>135,403</u>	<u>0</u>	<u>135,403</u>
Total Deferred Inflows of Resources	<u>\$340,829</u>	<u>\$591,214</u>	<u>\$932,043</u>

\$25,322 reported as deferred outflows of resources related to OPEB resulting from City contributions subsequent to the measurement date will be recognized as a reduction of the net OPEB liability in 2021. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in OPEB expense as follows:

Year Ending December 31:	<u>OPERS</u>	<u>OP&F</u>	<u>Total</u>
2021	(\$70,063)	\$161,135	\$91,072
2022	(11,002)	161,135	150,133
2023	58	176,355	176,413
2024	(31,393)	152,361	120,968
2025	0	157,804	157,804
Thereafter	<u>0</u>	<u>53,693</u>	<u>53,693</u>
Total	<u>(\$112,400)</u>	<u>\$862,483</u>	<u>\$750,083</u>

Actuarial Assumptions - OPERS

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

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Projections of health care costs for financial reporting purposes are based on the substantive plan (the plan as understood by the employers and plan members) and include the types of coverage provided at the time of each valuation and the historical pattern of sharing of costs between OPERS and plan members. The total OPEB liability was determined by an actuarial valuation as of December 31, 2018, rolled forward to the measurement date of December 31, 2019. The actuarial valuation used the following actuarial assumptions applied to all prior periods included in the measurement in accordance with the requirements of GASB 74:

Wage Inflation	3.25 percent
Projected Salary Increases, including inflation	3.25 to 10.75 percent including wage inflation
Single Discount Rate:	
Current measurement date	3.16 percent
Prior Measurement date	3.96 percent
Investment Rate of Return	6.00 percent
Municipal Bond Rate:	
Current measurement date	2.75 percent
Prior Measurement date	3.71 percent
Health Care Cost Trend Rate:	
Current measurement date	10.50 percent, initial 3.50 percent, ultimate in 2030
Prior Measurement date	10.00 percent, initial 3.25 percent, ultimate in 2029
Actuarial Cost Method	Individual Entry Age Normal

Pre-retirement mortality rates are based on the RP-2014 Employees mortality table for males and females, adjusted for mortality improvement back to the observation period base year of 2006. The base year for males and females was then established to be 2015 and 2010, respectively. Post-retirement mortality rates are based on the RP-2014 Healthy Annuitant mortality table for males and females, adjusted for mortality improvement back to the observation period base year of 2006. The base year for males and females was then established to be 2015 and 2010, respectively. Post-retirement mortality rates for disabled retirees are based on the RP-2014 Disabled mortality table for males and females, adjusted for mortality improvement back to the observation period base year of 2006. The base year for males and females was then established to be 2015 and 2010, respectively. Mortality rates for a particular calendar year are determined by applying the MP-2015 mortality improvement scale to all of the above described tables.

The most recent experience study was completed for the five year period ended December 31, 2015.

During 2019, OPERS managed investments in three investment portfolios: the Defined Benefit portfolio, the Health Care portfolio and the Defined Contribution portfolio. The Health Care portfolio includes the assets for health care expenses for the Traditional Pension Plan, Combined Plan and Member-Directed Plan eligible members. Within the Health Care portfolio, if any contribution are made into the plans, the contributions are assumed to be received continuously throughout the year based on the actual payroll payable at the time contributions are made. Health care-related payments are assumed to occur mid-year. Accordingly, the money-weighted rate of return is considered to be the same for all plans within the portfolio. The annual money-weighted rate of return expressing investment performance, net of investment expenses and adjusted for the changing amounts actually invested, for the Health Care portfolio was 19.7 percent for 2019.

The allocation of investment assets within the Health Care portfolio is approved by the Board of Trustees as outlined in the annual investment plan. Assets are managed on a total return basis with a long-term objective of continuing to offer a sustainable health care program for current and future retirees. OPERS' primary goal is to achieve and maintain a fully funded status for the benefits provided through the defined pension plans. Health care is a discretionary benefit. The long-term expected rate of return on health care investment assets

City of East Cleveland, Ohio
Notes to the Basic Financial Statements
For The Year Ended December 31, 2020

was determined using a building-block method in which best-estimate ranges of expected future real rates of return are developed for each major asset class. These ranges are combined to produce the long-term expected real rate of return by weighting the expected future real rates of return by the target asset allocation percentage, adjusted for inflation. For each major asset class that is included in the Health Care’s portfolio’s target asset allocation as of December 31, 2019, these best estimates are summarized in the following table:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Weighted Average Long-Term Expected Real Rate of Return (Arithmetic)</u>
Fixed Income	36.00 %	1.53 %
Domestic Equities	21.00	5.75
Real Estate Investment Trust	6.00	5.69
International Equities	23.00	7.66
Other investments	<u>14.00</u>	4.90
Total	<u>100.00 %</u>	<u>4.55 %</u>

Discount Rate A single discount rate of 3.16 percent was used to measure the OPEB liability on the measurement date of December 31, 2019. A single discount rate of 3.96 percent was used to measure the OPEB liability on the measurement date of December 31, 2018. Projected benefit payments are required to be discounted to their actuarial present value using a single discount rate that reflects (1) a long-term expected rate of return on OPEB plan investments (to the extent that the health care fiduciary net position is projected to be sufficient to pay benefits), and (2) tax-exempt municipal bond rate based on an index of 20-year general obligation bonds with an average AA credit rating as of the measurement date (to the extent that the contributions for use with the long-term expected rate are not met). This single discount rate was based on an expected rate of return on the health care investment portfolio of 6.00 percent and a municipal bond rate of 2.75 percent. The projection of cash flows used to determine this single discount rate assumed that employer contributions will be made at rates equal to the actuarially determined contribution rate. Based on these assumptions, the health care fiduciary net position and future contributions were sufficient to finance health care costs through 2034. As a result, the long-term expected rate of return on health care investments was applied to projected costs through the year 2034, and the municipal bond rate was applied to all health care costs after that date.

Sensitivity of the City’s Proportionate Share of the Net OPEB Liability to Changes in the Discount Rate

The following table presents the City’s proportionate share of the net OPEB liability calculated using the single discount rate of 3.16 percent, as well as what the City’s proportionate share of the net OPEB liability would be if it were calculated using a discount rate that is one-percentage-point lower (2.16 percent) or one-percentage-point higher (4.16 percent) than the current rate:

	<u>1% Decrease (2.16%)</u>	<u>Current Discount Rate (3.16%)</u>	<u>1% Increase (4.16%)</u>
City's proportionate share of the net OPEB liability	\$1,888,219	\$1,442,865	\$1,086,280

City of East Cleveland, Ohio
Notes to the Basic Financial Statements
For The Year Ended December 31, 2020

Sensitivity of the City’s Proportionate Share of the Net OPEB Liability to Changes in the Health Care Cost Trend Rate Changes in the health care cost trend rate may also have a significant impact on the net OPEB liability. The following table presents the net OPEB liability calculated using the assumed trend rates, and the expected net OPEB liability if it were calculated using a health care cost trend rate that is 1.0 percent lower or 1.0 percent higher than the current rate.

Retiree health care valuations use a health care cost-trend assumption that changes over several years built into the assumption. The near-term rates reflect increases in the current cost of health care; the trend starting in 2020 is 10.50 percent. If this trend continues for future years, the projection indicates that years from now virtually all expenditures will be for health care. A more reasonable alternative is that in the not-too-distant future, the health plan cost trend will decrease to a level at, or near, wage inflation. On this basis, the actuaries project premium rate increases will continue to exceed wage inflation for approximately the next decade, but by less each year, until leveling off at an ultimate rate, assumed to be 3.50 percent in the most recent valuation.

	<u>1% Decrease</u>	<u>Current Health Care Cost Trend Rate Assumption</u>	<u>1% Increase</u>
City's proportionate share of the net OPEB liability	\$1,400,286	\$1,442,865	\$1,484,899

Changes between Measurement Date and Reporting Date

On January 15, 2020, the Board approved several changes to the health care plan offered to Medicare and pre-Medicare retirees in efforts to decrease costs and increase the solvency of the health care plan. These changes are effective January 1, 2022, and include changes to base allowances and eligibility for Medicare retirees, as well as replacing OPERS-sponsored medical plans for pre-Medicare retirees with monthly allowances, similar to the program for Medicare retirees. These changes are not reflected in the current year financial statements but are expected to decrease the associated OPEB liability.

Actuarial Assumptions – OP&F

OP&F’s total OPEB liability as of December 31, 2019, is based on the results of an actuarial valuation date of January 1, 2019, and rolled-forward using generally accepted actuarial procedures. The total OPEB liability is determined by OP&F’s actuaries in accordance with GASB Statement No. 74, as part of their annual valuation. Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, salary increases, disabilities, retirements and employment terminations. Actuarially determined amounts are subject to continual review and potential modifications, as actual results are compared with past expectations and new estimates are made about the future.

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employers and plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing benefit costs between the employers and plan members to that point. The projection of benefits for financial reporting purposes does not explicitly incorporate the potential effects of legal or contractual funding limitations.

Actuarial calculations reflect a long-term perspective. For a newly hired employee, actuarial calculations will take into account the employee’s entire career with the employer and also take into consideration the benefits, if any, paid to the employee after termination of employment until the death of the employee and any applicable contingent annuitant. In many cases, actuarial calculations reflect several decades of service with the employer and the payment of benefits after termination.

City of East Cleveland, Ohio
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Key methods and assumptions used in the latest actuarial valuation, reflecting experience study results, are presented below.

Valuation Date	January 1, 2019, with actuarial liabilities rolled forward to December 31, 2019
Actuarial Cost Method	Entry Age Normal
Investment Rate of Return	8.0 percent
Projected Salary Increases	3.75 percent to 10.5 percent
Payroll Growth	3.25 percent
Single discount rate:	
Current measurement date	3.56 percent
Prior measurement date	4.66 percent
Cost of Living Adjustments	3.00 percent simple; 2.2 percent simple for increased based on the lesser of the increase in CPI and 3 percent

Mortality for non-disabled participants is based on the RP-2014 Total Employee and Healthy Annuitant Mortality Tables rolled back to 2006, adjusted according to the rates in the following table, and projected with the Buck Modified 2016 Improvement Scale. Rates for surviving beneficiaries are adjusted by 120 percent.

Age	Police	Fire
67 or less	77 %	68 %
68-77	105	87
78 and up	115	120

Mortality for disabled retirees is based on the RP-2014 Disabled Mortality Tables rolled back to 2006, adjusted according to the rates in the following table, and projected with the Buck Modified 2016 Improvement Scale.

Age	Police	Fire
59 or less	35 %	35 %
60-69	60	45
70-79	75	70
80 and up	100	90

The most recent experience study was completed for the five year period ended December 31, 2016.

The OP&F health care plan follows the same asset allocation and long-term expected real rate of return for each major asset class as the pension plan, see Note 14.

Discount Rate For 2019, the total OPEB liability was calculated using the discount rate of 3.56 percent. For 2018, the total OPEB liability was calculated using the discount rate of 4.66 percent. The projection of cash flows used to determine the discount rate assumed the contribution from employers and from members would be computed based on contribution requirements as stipulated by State statute. Projected inflows from investment earnings were calculated using the longer-term assumed investment rate of return of 8 percent. Based on those assumptions, OP&F's fiduciary net position was projected to not be able to make all future benefit payments of current plan members. Therefore, a municipal bond rate of 2.75 percent at December 31, 2019 and 4.13 percent at December 31, 2018, was blended with the long-term rate of 8 percent, which resulted in a blended discount rate of 3.56 percent for 2019 and 4.66 percent for 2018. The municipal bond rate was determined using the Bond Buyers General Obligation 20-year Municipal Bond Index Rate. The OPEB plan's

City of East Cleveland, Ohio
Notes to the Basic Financial Statements
For The Year Ended December 31, 2020

fiduciary net position was projected to be available to make all projected OPEB payments until 2034. The long-term expected rate of return on health care investments was applied to projected costs through 2034, and the municipal bond rate was applied to all health care costs after that date.

Sensitivity of the City's Proportionate Share of the Net OPEB Liability to Changes in the Discount Rate Net OPEB liability is sensitive to changes in the discount rate, and to illustrate the potential impact the following table presents the net OPEB liability calculated using the discount rate of 3.56 percent, as well as what the net OPEB liability would be if it were calculated using a discount rate that is one percentage point lower (2.56 percent), or one percentage point higher (4.56 percent) than the current rate.

	1% Decrease (2.56%)	Current Discount Rate (3.56%)	1% Increase (4.56%)
City's proportionate share of the net OPEB liability	\$1,999,248	\$1,612,380	\$1,290,921

Sensitivity of the City's Proportionate Share of the Net OPEB Liability to Changes in the Health Care Cost Trend Rate The total OPEB liability is based on a medical benefit that is a flat dollar amount; therefore, it is unaffected by a health care cost trend rate. An increase or decrease in the trend rate would have no effect on the total OPEB liability.

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, 2020.

Litigation

Legal proceedings covering a wide range of matters are pending or threatened against the City. All such cases are, and will continue to be, vigorously defended. It is possible that there could be adverse developments in pending cases against the City and that the results of operations, cash flows or financial position could be materially affected in a particular year by an unfavorable outcome or settlement of certain pending litigation. Nevertheless, although litigation is subject to uncertainty, the City expects to prevail; however there can be no assurance that the City will be successful in its defense.

The following lists the cases for which the City has recorded a liability as of December 31, 2020 as a result of judgments against the City.

Savage v. City of East Cleveland During 2009, Nestor filed bankruptcy and claimed the City of East Cleveland owed Nestor \$638,093 based upon a contract stemming from 2006. The Rhode Island Trustee for the bankruptcy case sued and got a judgment against the City for that amount in 2014. As of December 31, 2020, the City has accrued \$638,093 as a judgments payable on the financial statements. The judgment is considered due and payable and is reflected as a fund liability on the financial statements.

City of East Cleveland, Ohio
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For The Year Ended December 31, 2020

East Cleveland Firefighters IAFF v. City of East Cleveland During 2016, judgment was awarded to the East Cleveland Firefighters, IAFF Local 500, AFL-CIO, and Thomas Butth for the City's failure to comply with the terms of a temporary restraining order and preliminary injunction. As of December 31, 2020, the City has accrued \$387,184 as a judgments payable on the financial statements. The judgment is considered due and payable and is reflected as a fund liability on the financial statements.

Hunt v. City of East Cleveland, et al. During 2009, Charles Hunt entered an intersection and was struck by an East Cleveland police car on an emergency call. Mr. Hunt and his passenger sustained serious injuries and the jury awarded a combined verdict of \$8,617,180. As of December 31, 2020, the City has accrued \$11,084,438 as a long-term judgements payable on the financial statements. The judgment payable includes the verdict of \$8,617,180 and prejudgment interest of \$2,467,258.

Black v. City of East Cleveland, et al. A case was filed in which Arnold Black alleged an East Cleveland police officer of punching him during a drug/traffic stop then unlawfully detaining him for three days at the City of East Cleveland jail in 2011. While the case was on appeal for some interlocutory issues, the trial court proceeded to a jury trial without notifying the City's Legal Counsel. The Jury reached a verdict of \$22 Million. The City appealed that decision on procedural grounds, and the Eighth District Court of Appeals overturned the award and sent it back to the Court of Common Pleas for a new trial. During 2019, the Jury reached a verdict of \$50 million. Compensatory and punitive damages of \$30 million were against the officers and \$20 million in compensatory damages was against the City. Based upon the collective bargaining agreement with the Fraternal Order of Police and Ohio Revised Code 2744.05(A), the City maintains it has no liability for the compensatory and punitive damages that were against the officers. In regards to the \$20 million judgment against the City, the City contends Mr. Black had no actual losses and the compensatory damages are subject to the \$250,000 limitation imposed by Ohio Revised Code Section 2744.05 and would be paid over ten years. The City plans on appealing this verdict with the Ohio Supreme Court. As of December 31, 2020 the City has accrued \$20,000,000 as a long-term judgements payable on the financial statements.

Moore v. Moore, et al. The case alleges that three City police officers mistreated drug dealers upon their arrests during the period from 2007 until 2015. The three City officers have been arrested and subsequently fired from City employment. The City filed a Motion to Dismiss for failure to state a claim. The City arrived at a settlement with the plaintiff in 2020 for \$25,000 with \$2,000 to be paid monthly beginning March 2020. As of December 31, 2020, \$4,167 has been accrued as a long-term judgments payable.

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

Wheatt, et al. v. City of East Cleveland, et al. This case involved three juveniles who were convicted as adults with aggravated murder in 1995. In 2016, after serving almost twenty years, a City Judge dismissed their case without prejudice. Upon their release from prison, they filed a wrongful imprisonment case for \$60 million with the federal court alleging that their constitutional rights were violated by the participating law enforcement officers as well as the County Prosecutor's Office. Due to a ruling by the U.S. Supreme Court, the defense of "Qualified Immunity," is applicable to protect the City from liability. In November of 2018, a jury found their civil rights were violated and awarded the defendants \$5 million each solely against each of the former detectives. On March 25, 2020, the Ohio Supreme Court found that plaintiff judgment creditors could not directly pursue an employer, *Ayers*, 20-OH-1047. The *Ayers* Court ruled that indemnification for the employees was only as to the extent of their actual losses rather than the entire judgment. The City, nevertheless, plans on appealing the decision to the Sixth Circuit Court of Appeals

City of East Cleveland, Ohio
Notes to the Basic Financial Statements
For The Year Ended December 31, 2020

and, if necessary, the U.S. Supreme Court in order to vindicate the names of the officers. One of the officers is deceased and was bankrupt prior to his passing and the other retired from the City about fifteen years ago. The City also plans on appealing any judgment liens that might arise through the State Court System.

Note 17 – Interfund Balances and Transfers

Interfund Balances

Interfund balances at December 31, 2020 consisted of the following:

Interfund Payable	Interfund Receivable			Total
	General	Other Governmental Funds	Internal Service	
General	\$0	\$101,768	\$38,517	\$140,285
Coronavirus Relief	69,840	0	0	69,840
Other Governmental Funds	825,677	6,908	7,672	840,257
Total Governmental Funds	\$895,517	\$108,676	\$46,189	\$1,050,382

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

Interfund Transfers

In 2020, the general fund transferred \$97,477 to the bond retirement debt service fund was made to meet principal and interest requirements as they came due.

Note 18 – Risk Management

Property and Liability

The City is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; injuries to employees natural disasters. During 2020, the City contracted with Hudson Insurance for blanket building and business personal property general liability insurance with \$20,356,438 coverage.

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

The City has elected to provide employee hospital/medical, prescription and dental benefits through a self-insured program. The City established an internal service fund to account for and finance the cost of this program.

The claims liability of \$46,189 as estimated by the third party administrator and reported in the hospitalization internal service fund at December 31, 2020, is based on the requirements of GASB Statement No. 30 which requires that a liability for unpaid claims costs, including estimates of costs relating to incurred but not reported claims, be reported. The estimate was not affected by incremental claims adjustment expenses and does not include other allocated or unallocated claim adjustment expenses. Changes in the fund claims liability amount in 2019 and 2020 were as follows:

City of East Cleveland, Ohio
Notes to the Basic Financial Statements
For The Year Ended December 31, 2020

	Balance at Beginning of Year	Current Year Claims	Claim Payments	Balance at End of Year
2019	\$49,187	\$1,012,304	\$1,028,640	\$32,851
2020	32,851	783,469	770,131	46,189

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

Note 19 – Encumbrances

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

General	\$98,892
Coronavirus Relief	5,699
Other Governmental Funds	<u>386,895</u>
Total Governmental Funds	<u>\$491,486</u>

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.

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

Note 21 – Related Party Transactions

The City leases 1,500 square feet of a building owned by the King Management Group, Limited to house the Domestic Violence department. Brandon King, the Mayor, is a managing partner with the King Management Group, Limited. During 2020, the City paid rental costs of \$14,681.

City of East Cleveland, Ohio
Notes to the Basic Financial Statements
For The Year Ended December 31, 2020

The City purchased blankets and necessities for the City's inmates from American Merchandise which is affiliated with Mayor Brandon King. For 2020, the City paid \$366 to American Merchandise.

Note 22 – Jointly Governed Organizations

Northeast Ohio Public Energy Council

The Northeast Ohio Public Energy Council (NOPEC) is a regional council of governments formed under Chapter 167 of the Ohio Revised Code. NOPEC was formed to serve as a vehicle for communities wishing to proceed jointly with an aggregation program for the purchase of electricity. NOPEC is currently comprised of over 200 communities who have been authorized by ballot to purchase electricity on behalf of their citizens. The intent of NOPEC is to provide electricity at the lowest possible rates while at the same time insuring stability in prices by entering into long-term contracts with suppliers to provide electricity to the citizens of its member communities. This agency is not associated with any material accounts with the City finances itself (they are limited to 700 units or less of consumption).

NOPEC is governed by a General Assembly made up of one representative from each member community. The representatives from each county then elect one person to serve on the eight-member NOPEC Board of Directors. The Board oversees and manages the operation of the aggregation program. The degree of control exercised by any participating government is limited to its representation in the General Assembly and on the Board. The City of East Cleveland did not contribute to NOPEC during 2020. Financial information can be obtained by contacting Ronald McVoy, Board Chairman, 31360 Solon Road, Suite 33, Solon, Ohio 44139.

Regional Income Tax Agency

The Regional Income Tax Agency (RITA) is a regional council of governments formed to establish a central collection facility for the purpose of administering the income tax laws of the members and for the purpose of collection of income taxes on behalf of each member. RITA currently has approximately 350 members in the council of governments. Each member has one representative to the council of governments and is entitled to one vote on items under consideration. RITA is administered by a nine-member board of trustees elected by the members of the council of governments. The board exercises total control over RITA's operation including budgeting, appropriating, contracting and designating management. Each participant's degree of control is limited to its representation on the council. For 2020, the City paid RITA \$267,710 for income tax collection services.

Note 23 – COVID-19

The United States and the State of Ohio declared a state of emergency in March of 2020 due to the COVID-19 pandemic. The financial impact of COVID-19 and the continuing emergency measures will impact subsequent periods of the City. The City's investment portfolio fluctuates with market conditions, and due to market volatility, the amount of gains or losses that will be realized in subsequent periods, if any, cannot be determined. In addition, the impact on the City's future operating costs, revenues, and additional recovery from emergency funding, either federal or state, cannot be estimated. Additional funding will be available through the Consolidated Appropriations Act, 2021, passed by Congress on December 21, 2020 and/or the American Rescue Plan Act, passed by Congress on March 11, 2021.

During 2020, the City received Coronavirus Aid, Relief, and Economic Security (CARES) Act funding. Of the amounts received, \$184,000 was sub-granted to other organizations. These amounts are reflected as general government expenditures in the coronavirus relief special revenue fund on the accompanying financial statements.

City of East Cleveland, Ohio
Notes to the Basic Financial Statements
For The Year Ended December 31, 2020

Note 24 – Asset Retirement Obligations

The Bureau of Underground Storage Tank Regulations (BUSTR) regulates petroleum and hazardous substances stored in underground storage tanks. These regulations are included in Ohio Administrative Code Section 1301-7-9 and require a City classified as an “owner” or “operator,” to remove from the ground any underground storage tank (UST) that is not in use for a year or more. A permit must first be obtained for that year it is not being used. Once the UST is removed, the soil in the UST cavity and excavated material must be tested for contamination. This asset retirement obligation (ARO) of \$110,000 associated with the City’s underground storage tanks was estimated by the City engineer. The remaining useful life of one of these USTs is seven years. The City maintains insurance related to any potential pollution remediation associated with the USTs.

Note 25 – Subsequent Event

In March 2021, the City entered into a five year lease agreement with Caterpillar Financial Services Corporation for a CAT Skid Steer with an interest rate of 3.35 percent.

City of East Cleveland, Ohio
Notes to the Basic Financial Statements
For The Year Ended December 31, 2020

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Required Supplementary Information

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

	2020	2019	2018	2017	2016	2015	2014
City's Proportion of the Net Pension Liability	0.0103640%	0.0112550%	0.0129790%	0.0168150%	0.0170910%	0.0197400%	0.0197400%
City's Proportionate Share of the Net Pension Liability	\$2,048,514	\$3,082,517	\$2,036,154	\$3,819,291	\$2,960,378	\$2,380,865	\$2,327,089
City's Covered Payroll	\$1,458,257	\$1,520,193	\$1,744,746	\$2,172,992	\$2,128,192	\$2,420,125	\$2,777,508
City's Proportionate Share of the Net Pension Liability as a Percentage of its Covered Payroll	140.48%	202.77%	116.70%	175.76%	139.10%	98.38%	83.78%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	82.17%	74.70%	84.66%	77.25%	81.08%	86.45%	86.36%

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

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

See accompanying notes to the required supplementary information.

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

	2020	2019	2018	2017
City's Proportion of the Net OPEB Liability	0.0104460%	0.0113070%	0.0129200%	0.0164700%
City's Proportionate Share of the Net OPEB Liability	\$1,442,865	\$1,474,166	\$1,403,017	\$1,663,526
City's Covered Payroll	\$1,578,132	\$1,639,993	\$1,859,546	\$2,275,792
City's Proportionate Share of the Net OPEB Liability as a Percentage of its Covered Payroll	91.43%	89.89%	75.45%	73.10%
Plan Fiduciary Net Position as a Percentage of the Total OPEB Liability	47.80%	46.33%	54.14%	54.04%

(1) Although this schedule is intended to reflect information for ten years, information prior to 2017 is not available. An additional column will be added each year.

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

See accompanying notes to the required supplementary information.

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

	2020	2019	2018	2017	2016	2015	2014
City's Proportion of the Net Pension Liability	0.1632339%	0.1523780%	0.1431730%	0.1393480%	0.2178210%	0.1865190%	0.1865190%
City's Proportionate Share of the Net Pension Liability	\$10,996,306	\$12,438,072	\$8,787,173	\$8,826,164	\$14,012,578	\$9,662,461	\$9,084,060
City's Covered Payroll	\$3,898,549	\$3,408,604	\$3,101,634	\$2,930,283	\$4,318,736	\$3,668,106	\$4,426,159
City's Proportionate Share of the Net Pension Liability as a Percentage of its Covered Payroll	282.06%	364.90%	283.31%	301.21%	324.46%	263.42%	205.24%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	69.89%	63.07%	70.91%	68.36%	66.77%	71.71%	73.00%

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

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

See accompanying notes to the required supplementary information.

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

	2020	2019	2018	2017
City's Proportion of the Net OPEB Liability	0.1632339%	0.1523780%	0.1431730%	0.1393480%
City's Proportionate Share of the Net OPEB Liability	\$1,612,380	\$1,387,636	\$8,111,981	\$6,614,536
City's Covered Payroll	\$3,898,549	\$3,408,604	\$3,101,634	\$2,930,283
City's Proportionate Share of the Net OPEB Liability as a Percentage of its Covered Payroll	41.36%	40.71%	261.54%	225.73%
Plan Fiduciary Net Position as a Percentage of the Total OPEB Liability	47.08%	46.57%	14.13%	15.96%

(1) Although this schedule is intended to reflect information for ten years, information prior to 2017 is not available. An additional column will be added each year.

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

See accompanying notes to the required supplementary information.

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

	2020	2019	2018	2017
Net Pension Liability - Traditional Plan				
Contractually Required Contribution	\$233,019	\$204,156	\$212,827	\$226,817
Contributions in Relation to the Contractually Required Contribution	<u>(233,019)</u>	<u>(204,156)</u>	<u>(212,827)</u>	<u>(226,817)</u>
Contribution Deficiency (Excess)	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>
City Covered Payroll	\$1,664,421	\$1,458,257	\$1,520,193	\$1,744,746
Pension Contributions as a Percentage of Covered Payroll	<u>14.00%</u>	<u>14.00%</u>	<u>14.00%</u>	<u>13.00%</u>
Net OPEB Liability - OPEB Plan (2)				
Contractually Required Contribution	\$4,926	\$4,795	\$4,792	\$22,039
Contributions in Relation to the Contractually Required Contribution	<u>(4,926)</u>	<u>(4,795)</u>	<u>(4,792)</u>	<u>(22,039)</u>
Contribution Deficiency (Excess)	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>
City Covered Payroll (3)	\$1,787,571	\$1,578,132	\$1,639,993	\$1,859,546
OPEB Contributions as a Percentage of Covered Payroll	<u>0.28%</u>	<u>0.30%</u>	<u>0.29%</u>	<u>1.19%</u>

(1) Information prior to 2013 is not available.

(2) Information prior to 2016 is not available for the OPEB plan.

(3) The OPEB plan includes the members from the traditional plan and the member directed plan. The member directed pension plan is a defined contribution pension plan; therefore, the pension side is not included above.

See accompanying notes to the required supplementary information.

<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>
\$260,759	\$255,383	\$290,415	\$361,076
<u>(260,759)</u>	<u>(255,383)</u>	<u>(290,415)</u>	<u>(361,076)</u>
<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>
\$2,172,992	\$2,128,192	\$2,420,125	\$2,777,508
<u>12.00%</u>	<u>12.00%</u>	<u>12.00%</u>	<u>13.00%</u>
\$47,572			
<u>(47,572)</u>			
<u>\$0</u>			
\$2,275,792			
<u>2.09%</u>			

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

	2020	2019	2018	2017
Net Pension Liability				
Contractually Required Contribution	\$861,754	\$820,396	\$721,527	\$662,476
Contributions in Relation to the Contractually Required Contribution	<u>(861,754)</u>	<u>(820,396)</u>	<u>(721,527)</u>	<u>(662,476)</u>
Contribution Deficiency (Excess)	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>
City Covered Payroll (1)	\$4,079,123	\$3,898,549	\$3,408,604	\$3,101,634
Pension Contributions as a Percentage of Covered Payroll	<u>21.13%</u>	<u>21.04%</u>	<u>21.17%</u>	<u>21.36%</u>
Net OPEB Liability				
Contractually Required Contribution	\$20,396	\$19,492	\$17,043	\$15,518
Contributions in Relation to the Contractually Required Contribution	<u>(20,396)</u>	<u>(19,492)</u>	<u>(17,043)</u>	<u>(15,518)</u>
Contribution Deficiency (Excess)	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>
OPEB Contributions as a Percentage of Covered Payroll	<u>0.50%</u>	<u>0.50%</u>	<u>0.50%</u>	<u>0.50%</u>
Total Contributions as a Percentage of Covered Payroll	<u>21.63%</u>	<u>21.54%</u>	<u>21.67%</u>	<u>21.86%</u>

(1) The City's Covered payroll is the same for Pension and OPEB.

See accompanying notes to the required supplementary information.

2016	2015	2014	2013	2012	2011
\$634,235	\$934,392	\$780,570	\$804,114	\$790,503	\$721,133
<u>(634,235)</u>	<u>(934,392)</u>	<u>(780,570)</u>	<u>(804,114)</u>	<u>(790,503)</u>	<u>(721,133)</u>
<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>
\$2,930,283	\$4,318,736	\$3,668,106	\$4,426,159	\$5,232,484	\$4,749,649
<u>21.64%</u>	<u>21.64%</u>	<u>21.28%</u>	<u>18.17%</u>	<u>15.11%</u>	<u>15.18%</u>
\$14,651	\$21,594	\$18,340	\$160,080	\$353,193	\$320,601
<u>(14,651)</u>	<u>(21,594)</u>	<u>(18,340)</u>	<u>(160,080)</u>	<u>(353,193)</u>	<u>(320,601)</u>
<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>
<u>0.50%</u>	<u>0.50%</u>	<u>0.50%</u>	<u>3.62%</u>	<u>6.75%</u>	<u>6.75%</u>
<u>22.14%</u>	<u>22.14%</u>	<u>21.78%</u>	<u>21.79%</u>	<u>21.86%</u>	<u>21.93%</u>

City of East Cleveland, Ohio
Notes to the Required Supplementary Information
For the year ended December 31, 2020

Changes in Assumptions – OPERS Pension– Traditional Plan

Amounts reported beginning in 2019 incorporate changes in assumptions used by OPERS in calculating the total pension liability in the latest actuarial valuation. These new assumptions compared with those used in prior years are presented below:

	2019	2018 and 2017	2016 and prior
Wage Inflation	3.25 percent	3.25 percent	3.75 percent
Future Salary Increases, including inflation	3.25 to 10.75 percent including wage inflation	3.25 to 10.75 percent including wage inflation	4.25 to 10.05 percent including wage inflation
COLA or Ad Hoc COLA:			
Pre-January 7, 2013 Retirees	3 percent, simple	3 percent, simple	3 percent, simple
Post-January 7, 2013 Retirees	see below	see below	see below
Investment Rate of Return	7.2 percent	7.5 percent	8 percent
Actuarial Cost Method	Individual Entry Age	Individual Entry Age	Individual Entry Age

The assumptions related COLA or Ad Hoc COLA for Post-January 7, 2013 Retirees are as follows:

COLA or Ad Hoc COLA, Post-January 7, 2013 Retirees:

2020	1.4 percent, simple through 2020 then 2.15 percent, simple
2017 through 2019	3.0 percent, simple through 2018 then 2.15 percent, simple
2016 and prior	3.0 percent, simple through 2018 then 2.80 percent, simple

Amounts reported beginning in 2017 use mortality rates based on the RP-2014 Healthy Annuitant mortality table. For males, Healthy Annuitant Mortality tables were used, adjusted for mortality improvement back to the observation period base of 2006 and then established the base year as 2015. For females, Healthy Annuitant Mortality tables were used, adjusted for mortality improvements back to the observation period base year of 2006 and then established the base year as 2010. The mortality rates used in evaluating disability allowances were based on the RP-2014 Disabled mortality tables, adjusted for mortality improvement back to the observation base year of 2006 and then established the base year as 2015 for males and 2010 for females. Mortality rates for a particular calendar year for both healthy and disabled retiree mortality tables are determined by applying the MP-2015 mortality improvement scale to the above described tables.

Amounts reported for 2016 and prior use mortality rates based on the RP-2000 Mortality Table projected 20 years using Projection Scale AA. For males, 105 percent of the combined healthy male mortality rates were used. For females, 100 percent of the combined healthy female mortality rates were used. The mortality rates used in evaluating disability allowances were based on the RP-2000 mortality table with no projections. For males 120 percent of the disabled female mortality rates were used set forward two years. For females, 100 percent of the disabled female mortality rates were used.

Changes in Assumptions – OPERS Pension – Combined Plan

For 2020, the Combined Plan had the same change in COLA or Ad Hoc COLA for Post-January 2, 2013 retirees as the Traditional Plan. For 2019, the investment rate of return changed from 7.5 percent to 7.2 percent.

City of East Cleveland, Ohio
Notes to the Required Supplementary Information
For the year ended December 31, 2020

Changes in Assumptions – OP&F Pension

Amounts reported beginning in 2018 incorporate changes in assumptions used by OP&F in calculating the total pension liability in the latest actuarial valuation. These new assumptions compared with those used in 2017 and prior are presented below:

	Beginning in 2018	2017 and Prior
Valuation Date	January 1, 2017, with actuarial liabilities rolled forward to December 31, 2017	January 1, 2016, with actuarial liabilities rolled forward to December 31, 2016
Actuarial Cost Method	Entry Age Normal	Entry Age Normal
Investment Rate of Return	8.0 percent	8.25 percent
Projected Salary Increases	3.75 percent to 10.5 percent	4.25 percent to 11 percent
Payroll Growth	Inflation rate of 2.75 percent plus productivity increase rate of 0.5 percent	Inflation rate of 3.25 percent plus productivity increase rate of 0.5 percent
Cost of Living Adjustments	3.00 percent simple; 2.2 percent simple for increased based on the lesser of the increase in CPI and 3 percent	3.00 percent simple; 2.6 percent simple for increased based on the lesser of the increase in CPI and 3 percent

Amounts reported beginning in 2018 use valuation, mortality for non-disabled participants is based on the RP-2014 Total Employee and Healthy Annuitant Mortality Tables rolled back to 2006, adjusted according to the rates in the following table, and projected with the Buck/Conduent Modified 2016 Improvement Scale. Rates for surviving beneficiaries are adjusted by 120 percent.

Age	Police	Fire
67 or less	77 %	68 %
68-77	105	87
78 and up	115	120

Amounts reported beginning in 2018 use valuation, mortality for disabled retirees is based on the RP-2014 Disabled Mortality Tables rolled back to 2006, adjusted according to the rates in the following table, and projected with the Buck/Conduent Modified 2016 Improvement Scale.

Age	Police	Fire
59 or less	35 %	35 %
60-69	60	45
70-79	75	70
80 and up	100	90

Amounts reported for 2017 and prior use valuation, rates of death were based on the RP2000 Combined Table, age-adjusted as follows. For active members, set back six years. For disability retirements, set forward five years for police and three years for firefighters. For service retirements, set back zero years for police and two years for firefighters. For beneficiaries, set back zero years. The rates are applied on a fully generational basis, with a base year of 2009, using mortality improvement Scale AA.

City of East Cleveland, Ohio
Notes to the Required Supplementary Information
For the year ended December 31, 2020

Changes in Assumptions – OPERS OPEB

Investment Return Assumption:	
Beginning in 2019	6.00 percent
2018	6.50 percent
Municipal Bond Rate:	
2020	2.75 percent
2019	3.71 percent
2018	3.31 percent
Single Discount Rate:	
2020	3.16 percent
2019	3.96 percent
2018	3.85 percent
Health Care Cost Trend Rate:	
2020	10.5 percent, initial 3.5 percent, ultimate in 2030
2019	10.0 percent, initial 3.25 percent, ultimate in 2029
2018	7.5 percent, initial 3.25 percent, ultimate in 2028

Changes in Assumptions – OP&F OPEB

Single Discount Rate:	
2020	3.56 percent
2019	4.66 percent
2018	3.24 percent

Changes in Benefit Terms – OP&F OPEB

For 2019, OP&F recognized a change in benefit terms. Under this new model, OP&F provides eligible retirees with a fixed stipend earmarked to pay for health care and Medicare Part B reimbursements. This new model replaced the self-insured health care plan used in prior years.

City of East Cleveland, Ohio

Single Audit Reports

For the Year Ended December 31, 2020

City of East Cleveland, Ohio

For the Year Ended December 31, 2020

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CPAs and Business Advisors

Where Relationships Count.

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

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the City of East Cleveland, Ohio (the “City”), as of and for the year ended December 31, 2020, and the related notes to the financial statements, which collectively comprise the City’s basic financial statements, and have issued our report thereon dated May 16, 2022, wherein we noted that the City implemented Governmental Accounting Standards Board (GASB) Statement No. 83, *Certain Asset Retirement Obligations (AROs)*, and as a result restated their December 31, 2019 net position of the governmental activities, as disclosed in Note 3. Furthermore, we qualified our opinion on the governmental activities because certain accounting records supporting the valuation of compensated absences were not presented for audit and we noted as disclosed in Note 20 to the financial statements, on October 9, 2012, the Auditor of State declared the City to be in a state of fiscal emergency.

Internal Control over Financial Reporting

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

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

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that have not been identified. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings and questioned costs as items 2020-001 through 2020-005 that we consider to be material weaknesses.

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 financial statements. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying schedule of findings and questioned costs as items 2020-006 and 2020-007.

City's Response to Findings

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

Purpose of this Report

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



Cleveland, Ohio
May 16, 2022



CPAs and Business Advisors

Where Relationships Count.

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

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

Report on Compliance for the Major Federal Program

We have audited the City of East Cleveland, Ohio's (the "City") compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on the City's major federal program for the year ended December 31, 2020. The City's major federal program is identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for the City's major federal program based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the City's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

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

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

Opinion on the Major Federal Program

In our opinion, the City complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on its major federal program for the year ended December 31, 2020.

Other Matters

The results of our auditing procedures disclosed an instance of noncompliance which is required to be reported in accordance with the Uniform Guidance and which is described in the accompanying schedule of findings and questioned costs as item 2020-008. Our opinion on the major federal program is not modified with respect to this matter.

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

Report on Internal Control over Compliance

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

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

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

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

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

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the City, as of and for the year ended December 31, 2020, and the related notes to the financial statements, which collectively comprise the City's basic financial statements. We issued our report thereon dated May 16, 2022, which contained a qualified opinion over the governmental activities and unmodified opinions on the other opinion units, wherein we noted that the City implemented Governmental Accounting Standards Board (GASB) Statement No. 83, *Certain Asset Retirement Obligations (AROs)*, and as a result restated their December 31, 2019 net position of the governmental activities, as disclosed in Note 3. Furthermore, we noted the City was placed in fiscal emergency effective October 9, 2012, as disclosed in Note 20. 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 the Uniform Guidance and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of federal awards is fairly stated in all material respects in relation to the basic financial statements as a whole.



Cleveland, Ohio
May 16, 2022

City of East Cleveland, Ohio

Schedule of Expenditures of Federal Awards

For the Year Ended December 31, 2020

<u>Federal Grantor/Pass-Through Grantor Program Title</u>	<u>Catalog of Federal Domestic Assistance No.</u>	<u>Pass-Through Grantor's Number</u>	<u>Federal Expenditures</u>
U.S. Department of Housing and Urban Development:			
CDBG – Entitlement Grants Cluster:			
Community Development Block Grants / Entitlement Grants	14.218	N/A	\$ <u>1,315,401</u>
Total CDBG – Entitlement Grants Cluster			<u>1,315,401</u>
Home Investment Partnerships Program	14.239	N/A	<u>38,202</u>
Total U.S. Department of Housing and Urban Development			<u>1,353,603</u>
U.S. Department of Justice:			
Crime Victim Assistance (VOCA)	16.575	N/A	149,565
Public Safety Partnership and Community Policing Grants (SRO)	16.710	N/A	<u>120,381</u>
Total U.S. Department of Justice			<u>269,946</u>
U.S. Department of Treasury:			
Passed Through Cuyahoga County:			
COVID-19 - Coronavirus Relief Fund	21.019	N/A	<u>4,034,782</u>
Total U.S. Department of Treasury			<u>4,034,782</u>
U.S. Department of Homeland Security:			
Passed Through Office of Federal Emergency Management Agency:		EMW-2017-FV-02273 /	
Assistance to Firefighters Grant	97.044	EMW-2018-FO-02648	331,065
Passed Through Office of Federal Emergency Management Agency:			
Staffing for Adequate Fire and Emergency Response (SAFER)	97.083	EMW-2017-FH-00445	<u>616,255</u>
Total U.S. Department of Homeland Security			<u>947,320</u>
Total Expenditures of Federal Awards			\$ <u>6,605,651</u>

See Notes to the Schedule of Expenditures of Federal Awards

City of East Cleveland, Ohio

Notes to the Schedule of Expenditures of Federal Awards

For the Year Ended December 31, 2020

Note 1: Summary of Significant Accounting Policies

The accompanying Schedule of Expenditures of Federal Awards (the "Schedule") reflects the federal award activity of the City of East Cleveland, Ohio (the "City") under programs of the federal government for the year ended December 31, 2020 and is presented on the cash basis of accounting. The information in this schedule is presented in accordance with the requirements of Title 2 U.S. *Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

Note 2: Indirect Cost Rate

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

City of East Cleveland, Ohio

Schedule of Findings and Questioned Costs

For the Year Ended December 31, 2020

1. Summary of Auditor's Results

(d)(1)(i)	Type of Financial Statement Opinions	Governmental Activities – Qualified. Unmodified for other opinion units.
(d)(1)(ii)	Were there any material control weaknesses in internal control 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 weaknesses in internal control reported for major federal programs?	No
(d)(1)(iv)	Were there any other significant deficiencies in internal control reported for major federal programs?	No
(d)(1)(v)	Type of Major Program Compliance Opinion	Unmodified
(d)(1)(vi)	Are there any reportable findings under 2 CFR Section 200.516(a)?	Yes
(d)(1)(vii)	Major Programs	COVID-19 - Coronavirus Relief Fund: CFDA # 21.019
(d)(1)(viii)	Dollar Threshold: Type A/B Programs	Type A: >\$750,000 Type B: All Others
(d)(1)(ix)	Low Risk Auditee?	No

City of East Cleveland, Ohio

Schedule of Findings and Questioned Costs (continued)

For the Year Ended December 31, 2020

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

2020-001: Material Weakness in internal control over financial reporting

Audit Adjustments:

Condition:

Sound financial reporting is the responsibility of the City's Finance Department, Mayor and City Council and is essential to ensure the information provided to the readers of the financial statements is complete and accurate. 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 accumulated depreciation, depreciation expense, and additions for a duplicate addition (recorded in both 2019 and 2020).
- Adjusted accounts payable for unrecorded liabilities. Adjusted a judgment payable that was increased as of December 31, 2020.
- Adjusted income tax receivable to match the Regional Income Tax Agency confirmed amounts.

Criteria:

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

Cause:

Controls were not in place to ensure the financial statements were properly adjusted for the above accounts as the City did not consider the completeness and accuracy of some of its current and fixed assets at year-end and did not have proper cut-off procedures surrounding accounts payable.

Effect:

The lack of controls to ensure the financial statements are accurately reported may result in users of the financial statements basing decisions and judgments on incomplete or inaccurate information.

Recommendation:

We recommend the City implement controls over its cut-off procedures and year-end financial reporting process, such as a detail review of the GAAP conversion workpapers and financial statements by management and maintenance of a complete and accurate capital asset listing thereby increasing the reliability of the financial data at year-end.

Management's Response:

The City will complete an assessment of the above adjustments and ensure the proper controls are in place to mitigate reoccurrence.

City of East Cleveland, Ohio

Schedule of Findings and Questioned Costs (continued)

For the Year Ended December 31, 2020

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

2020-002: Material Weakness – Capital Assets

Condition:

The City does not have controls in place to review and reconcile the capital asset subledger to the general ledger and financial statements. Also, the City does not have controls in place to review the capital assets detail listing for accuracy and completeness for obsolete, donated, sold, or fully-depreciated capital assets.

Criteria:

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

Cause:

Controls were not in place to review and reconcile the capital assets subledger to the general ledger and financial statements and to review the capital assets listing for completeness and accuracy.

Effect:

The lack of controls to ensure the capital assets listing is complete and accurate may result in misstatements of capital assets and related expenses, gains or losses.

Recommendation:

We recommend that the City reconcile the amounts reported in the City's general ledger to the capital asset subledger in order to ensure the accuracy of its capital assets, accumulated depreciation, and depreciation expense at year-end.

Management's Response:

Management noted that the City is in the process of performing a physical inventory of its capital assets in order to ensure the accuracy of its capital asset listing.

2020-003: Material Weakness – Municipal Court Bank Reconciliations, Supporting Documentation, and Purchasing Procedures

Condition:

During the current year and prior year's audits, we attempted to perform procedures to follow-up on a previous finding regarding the Municipal Court's preparation of monthly bank reconciliations for all its bank accounts, the lack of adequate supporting documentation for receipts and expenditures, and the use of purchase orders for its operational expenditures, but did not receive cooperation from personnel or management of the Municipal Court. Therefore, we are repeating the prior year's finding during the current year's audit.

Criteria:

The internal control structure should require the Municipal Court to prepare detailed bank reconciliations, in a timely manner, and include all bank account balances being reconciled to book balances. In addition, adequate supporting documentation should be maintained for all receipts and expenditures of the Municipal Court. The Court should follow similar budgetary or purchasing procedures as the City for all its operational expenditures.

City of East Cleveland, Ohio

Schedule of Findings and Questioned Costs (continued)

For the Year Ended December 31, 2020

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

2020-003: Material Weakness – Municipal Court Bank Reconciliations, Supporting Documentation, and Purchasing Procedures (continued)

Cause:

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

Effect:

The lack of controls over Municipal Court bank reconciliations, lack of supporting documentation for Municipal Court receipts and expenditures, and lack of proper budgetary or purchasing procedures for operational expenditures can result in errors and irregularities in cash balances that may go undetected and decreases the reliability of financial data throughout the year.

Recommendation:

We recommend the Municipal Court prepare detailed bank reconciliations that include all bank account balances being reconciled to book balances on a timely basis (e.g., by the end of the following month). We also recommend that copies of bank reconciliations should be presented to the City's finance department for review and approval. The review and approval by the finance department should also serve as a monitoring control to ensure reconciliations are prepared timely. In addition, the Municipal Court should maintain adequate supporting documentation for all receipts and expenditures made by the Municipal Court. The Municipal Court should follow the City's budgetary or purchasing procedures for its operational expenditures.

Management's Response:

The City will take the necessary steps to ensure Municipal Court bank reconciliations are prepared timely and reviewed and approved by the finance department, adequate supporting documentation is maintained for the Municipal Court's receipts and expenditures as well as the proper budgetary or purchasing procedures for operational expenditures are implemented.

City of East Cleveland, Ohio

Schedule of Findings and Questioned Costs (continued)

For the Year Ended December 31, 2020

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

2020-004: Material Weakness – Compensated Absences

Condition:

During our testing of compensated absences, we noted that there were multiple instances in which inadequate documentation of compensated absences was maintained and the City was unable to reconcile differences when rolling balances forward from the prior year audited balance. Therefore, we were not able to verify the amount of compensated absences liability being reported at December 31, 2020.

Criteria:

The City should enforce payroll internal control policies to ensure that employee compensated absences balances are properly tracked and reported.

Cause:

Lack of controls in place requiring documentation and reconciliation of compensated absences.

Effect:

This may result in employees being paid the wrong amount as it relates to the compensated absences balance.

Recommendation:

We recommend that the City reconcile the compensated absences balances of each employee to the payroll system and supporting documentation.

Management's Response:

The City is taking the necessary steps to reconcile the payroll system to the amount of compensated absences reported at December 31, 2020.

2020-005: Material Weakness – Schedule of Expenditures of Federal Awards (SEFA) Preparation

Condition:

We noted that the SEFA did not properly report program names and related program expenditures or include all CFDA numbers.

Criteria:

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

Cause:

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

Effect:

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

City of East Cleveland, Ohio

Schedule of Findings and Questioned Costs (continued)

For the Year Ended December 31, 2020

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

2020-005: Material Weakness – Schedule of Expenditures of Federal Awards (SEFA) Preparation (continued)

Recommendation:

We recommend that the SEFA be monitored and updated throughout the year and reviewed and approved by the appropriate City personnel to ensure all federal grant programs are properly identified and reported. The program names, program expenditures, and CFDA Numbers should be compared to the respective federal websites, grant agreements or *OMB Compliance Supplement*.

Management's Response:

The SEFA will be monitored and updated throughout the year and reviewed and approved by the appropriate City personnel to ensure all federal grant expenditures are properly identified and reported. While the total amount of FEMA expenditures was properly reported, we were unaware that those expenditures related to two separate federal programs.

2020-006: Material Noncompliance – Negative Cash Balances

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

<u>Fund</u>	<u>Amount</u>
Special Revenue Funds:	
Street	\$ 301,457
Police Pension	17,812
Fire Pension	8,265
FEMA Grant	64,656
Coronavirus Relief	69,840
Community Development	82,017
VOCA Grant	9,382
ODJFS CSEF	16,232
School Resource Officers	61,433
Capital Projects Funds:	
Permanent Improvement	\$ 264,423

Management's Response:

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

City of East Cleveland, Ohio

Schedule of Findings and Questioned Costs (continued)

For the Year Ended December 31, 2020

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

2020-007: Material Noncompliance - Budgetary Noncompliance

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

	Final Estimated Revenues Plus Carryover Fund Balance	Final Appropriations	Excess
Major Funds:			
Coronavirus Relief Fund	\$2,233,507	\$4,040,481	(\$1,806,974)

Management's Response:

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

3. Findings for Federal Awards

2020-008: Material Noncompliance

2 CFR section 200.512(a) requires the reporting package and data collection form to be submitted to the Federal Audit Clearinghouse the earlier of 30 calendar days after the reports are received from the auditor or nine months after the end of the audit period. An automatic six-month extension was granted by the U.S. Office of Management and Budget (OMB) via Memo M-21-20 for local governments with fiscal year ends through June 30, 2021 that had not filed their single audits as of March 19, 2021. With this automatic extension, the City's extended due date was March 31, 2022. It was noted that the City did not submit the required documentation by the extended due date.

We recommend that the City submit the required information by the submission deadline established by 2 CFR section 200.512(a).

Management's Response:

The City is in the process of remedying this finding. The City is in the process of getting the delinquent financial statements completed, submitted and audited to enable a timely filing of the 2021 reporting package.

City of East Cleveland, Ohio

Schedule of Prior Audit Findings

For the Year Ended December 31, 2020

Finding No.	Finding Summary	Fully Corrected	Explanation
2019-001	<p><i>Material Weakness in internal control over financial reporting</i> We noted the City had multiple significant audit adjustments made to the financial statements during the 2019 audit. Sound financial reporting is the responsibility of the City’s Finance Director, Mayor, and City Council and is essential to ensure the information provided to the readers of the financial statements is complete and accurate. The lack of controls over the posting of financial transactions and financial reporting can result in errors and irregularities that may go undetected and decreases the reliability of financial data throughout the year.</p>	No	The City had similar material audit adjustments in the current year.
2019-002	<p><i>Material weakness – Capital Assets</i> The City does not have controls in place to review and reconcile the capital asset subledger to the general ledger and financial statements. The City also does not have controls in place to review the capital assets detail listing for accuracy and completeness for obsolete, donated, sold, or fully-depreciated capital assets. Furthermore, the City did not begin depreciating certain capital assets placed in service during the year in accordance with its capital policy that was effective during the year.</p>	Partial correction noted	The City had similar findings in the current year except that the City corrected the part of the finding relating to the depreciation of capital assets placed in service in the current year in accordance with its capital policy.

City of East Cleveland, Ohio

Schedule of Prior Audit Findings (continued)

For the year ended before December 31, 2020

2019-003	<p><i>Material Weakness – Municipal Court Bank Reconciliations, Supporting Documentation, and Purchasing Procedures</i></p> <p>During the procedures performed on the Municipal Court, we noted that the Municipal Court did not prepare bank reconciliations for all bank accounts utilized during the year ended December 31, 2018. In addition, for the receipts and expenditures selected for testing, the Municipal Court was not able to provide adequate supporting documentation such as receipt copies, case files, purchase orders and related invoices. We also noted that the Municipal Court was not utilizing purchase orders for its operational expenditures.</p>	No	As we were unable to obtain cooperation from the Municipal Court management and personnel to conduct a follow-up on this finding, we have repeated the finding in the current year.
2019-004	<p><i>Material Noncompliance – Negative Cash Balances</i></p> <p>At December 31, 2019, the City had a negative cash balance in in the FEMA grant fund indicating that revenue from other sources were used to pay obligations of these funds contrary to Ohio Revised Code Section 5705.10.</p>	No	The City had more negative cash balances in the current year.



The City of East Cleveland

Brandon L. King, Mayor

City of East Cleveland, Ohio *"Rebuilding East Cleveland Together"*

Corrective Action Plan

For the year ended December 31, 2020

Finding Number	Planned Correction Action	Anticipated Completion Date	Responsible Contact Person
2020-001	The City will complete an assessment of the audit adjustments and ensure the proper controls are in place to mitigate reoccurrence.	December 31, 2022	Charles Iyahen, Finance Director
2020-002	The City will perform a physical inventory of its capital assets, review its capital assets and a complete and accurate listing of capital assets.	December 31, 2022	Charles Iyahen, Finance Director
2020-003	The City will take the necessary steps to ensure Municipal Court bank reconciliations are prepared timely and reviewed and approved by the finance department, adequate support documentation is maintained for the Municipal Court's receipts and expenditures as well as the proper budgetary or purchasing procedures for operational expenditures are implemented.	December 31, 2022	Charles Iyahen, Finance Director
2020-004	The City is taking the necessary steps to reconcile the payroll system to the amount of compensated absences reported at December 31, 2020.	December 31, 2022	Charles Iyahen, Finance Director
2020-005	The SEFA will be monitored and updated throughout the year to ensure all federal grant programs and expenditures are properly reported and identified.	December 31, 2022	Charles Iyahen, Finance Director
2020-006	Management will monitor the timing of receipts and expenditures, and advance monies from the General Fund when available to eliminate negative cash balances within the fund.	December 31, 2022	Charles Iyahen, Finance Director
2020-007	Management will compare appropriations to estimated resources plus carryover balances on a monthly basis to ensure estimated resources plus carryover balances are not exceeded or budgetary adjustments are made.	December 31, 2022	Charles Iyahen, Finance Director
2020-008	The City is in the process of remedying this finding by September 30, 2022. The City is in the process of getting the delinquent financial statements completed, submitted and audited to enable a timely filing of the 2021 reporting package.	September 30, 2022	Charles Iyahen, Finance Director

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OHIO AUDITOR OF STATE KEITH FABER



CITY OF EAST CLEVELAND

CUYAHOGA COUNTY

AUDITOR OF STATE OF OHIO CERTIFICATION

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



Certified for Release 6/7/2022

88 East Broad Street, Columbus, Ohio 43215
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This report is a matter of public record and is available online at
www.ohioauditor.gov