

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

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

## **Note 10 – Leases**

### ***Capital Leases***

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

**Governmental Activities:**

Assets	
Vehicles	\$461,185
Equipment	65,785
<i>Total Capital Assets, Being Depreciated:</i>	<u>526,970</u>
Accumulated Depreciation	
Vehicles	393,024
Equipment	60,936
<i>Total Accumulated Depreciation</i>	<u>453,960</u>
<i>Governmental Activities Capital Assets, Net</i>	<u><u>\$73,010</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, 2013.

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

### **Operating Leases**

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

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

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***Encumbrances***

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

***Governmental Funds:***

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

**Note 21 – Fiscal Emergency**

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

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

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

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

**Note 22 – Related Party Transaction**

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

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

**Operating Leases**

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

**Note 9 - Capital Assets**

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

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

Depreciation expense was charged to governmental functions as follows:

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

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

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

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

**Note 19 – Related Party Transaction**

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

**City of East Cleveland, Ohio**  
*Notes to the Basic Financial Statements*  
*For The Year Ended December 31, 2015*

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***Intergovernmental Receivables***

A summary of intergovernmental receivables follows:

<b>Governmental Activities</b>	<b>Amount</b>
CDBG/Home Grants	\$1,172,199
Local Government	854,023
Gas/Excise Tax	139,768
Homestead & Rollback	118,006
Permissive Tax	30,742
Motor Vehicle Tax	26,905
Cuyahoga County	1,094
Total	<u><u>\$2,342,737</u></u>

**Note 8 – Leases**

***Capital Leases***

The City has a capital lease for 4 police vehicles and 2 salt trucks. Capital lease payments are reflected as debt service expenditures in various funds on the basic financial statements. The governmental equipment has been capitalized in the amount of \$338,183, the present value of the minimum lease payments at the inception of the leases. The leases are secured by the related property.

<b>Governmental Activities:</b>	
Assets	
Vehicles	\$338,183
Accumulated Depreciation	
Vehicles	<u>24,538</u>
<i>Governmental Activities Capital Assets, Net</i>	<u><u>\$313,645</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, 2015.

<u>Year</u>	<u>Amount</u>
2016	\$72,909
2017	72,875
2018	<u>69,108</u>
	214,892
Less: Amount representing interest	<u>(13,136)</u>
Present Value of minimum lease payments	<u><u>\$201,756</u></u>

***Operating Leases***

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

**City of East Cleveland, Ohio**  
*Notes to the Basic Financial Statements*  
*For The Year Ended December 31, 2015*

**Restatement of Fund Balance and Net Position**

During 2015, it was determined that contracts payable was understated and judgments payable was overstated. These restatements had the following effect on fund balance as reported December 31, 2014:

	<u>General</u>	<u>Community Development</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Fund Balance December 31, 2014	(\$4,996,682)	(\$315,544)	\$2,605,827	(\$2,706,399)
Adjustment				
Contracts Payable	0	(43,398)	0	(43,398)
Judgments Payable	<u>243,443</u>	<u>0</u>	<u>0</u>	<u>243,443</u>
Restated Fund Balance December 31, 2014	<u>(\$4,753,239)</u>	<u>(\$358,942)</u>	<u>\$2,605,827</u>	<u>(\$2,506,354)</u>

During 2015, it was determined that special assessment receivable, contracts payable and the Ohio Public Works Commission liability were understated and accounts receivable were overstated. These restatements and the implementation of GASB Statements No. 68 and No. 71 had the following effect on net position as reported December 31, 2014:

	<u>Governmental Activities</u>
Net Position December 31, 2014	\$18,621,055
Adjustments	
Special Assessment Receivable	306,827
Accounts Receivable	(269,707)
Contracts Payable	(43,398)
OPWC Liability	(20,345)
Net Pension Liability	(11,411,149)
Deferred Outflow - Payments Subsequent to Measurement Date	<u>1,070,985</u>
Restated Net Position December 31, 2014	<u>\$8,254,268</u>

Other than employer contributions subsequent to the measurement date, the City made no restatement for deferred inflows/outflows of resources as the information needed to generate these restatements was not available.

**Note 20 – Related Party Transaction**

The City leases 1,500 square feet of a building owned by the King Management Group to house the Domestic Violence department. The City also leases with King Management Group for storage space for the Municipal Court. King Management Group is owned by Brandon King, a City Councilman. During 2015, the City paid rental costs of \$11,181 and \$10,000 respectively.

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

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**Note 8 - Tax Abatements**

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

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

**Note 9 – Leases**

***Capital Leases***

The City has a capital lease for 4 police vehicles and 2 salt trucks. Capital lease payments are reflected as debt service expenditures in various funds on the basic financial statements. The governmental equipment has been capitalized in the amount of \$338,183, the present value of the minimum lease payments at the inception of the leases. These leases are secured by the related property.

**Governmental Activities:**

Assets	
Vehicles	\$338,183
Accumulated Depreciation	
Vehicles	<u>50,177</u>
<i>Governmental Activities Capital Assets, Net</i>	<u><u>\$288,006</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, 2016.

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

***Operating Leases***

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

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

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

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

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

**Note 21 – Related Party Transaction**

The City leases 1,500 square feet of a building owned by the King Management Group to house the Domestic Violence department. The City also leases with King Management Group for storage space for the Municipal Court and the finance department. King Management Group is owned by Brandon King, a City Councilman who became interim mayor on December 27, 2016. During 2016, the City paid rental costs of \$11,181, \$4,800 and \$6,000 respectively.



**City of East Cleveland, Ohio**  
*Notes to the Basic Financial Statements*  
*For The Year Ended December 31, 2017*

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***Intergovernmental Receivables***

A summary of intergovernmental receivables follows:

<b>Governmental Activities</b>	<b>Amount</b>
CDBG/Home Grants	\$965,360
Local Government	871,162
Gas/Excise Tax	146,963
FEMA Grant	111,880
Homestead & Rollback	99,871
Permissive Tax	27,929
Motor Vehicle Tax	21,914
VOCA Grant	11,755
Cuyahoga County	2,188
Total	<u>\$2,259,022</u>

**Note 9 - Tax Abatements**

As of December 31, 2017, the City provides tax abatements through two Community Reinvestment Areas.

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

**Note 10 – Leases**

***Operating Leases***

The City has entered into four 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 remaining three are with King Management Group (KMG), Limited, a related party. One lease is for the purpose of leasing 1,500 square feet of a building in the City to house the Domestic Violence Department. This is a cancelable lease that is renewed annually. The City pays \$2,795 per quarter. Another lease is to house storage for the finance department. This lease is renewed every three years. The City pays \$6,000 per year. The final lease is for the Municipal Court Mini-Station and Community Outreach Office. This lease is renewed every three years. The City pays \$1,600 per trimester. 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 a capital lease for four police vehicles, a front loader and a salt truck. 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 \$482,636, the present value of the minimum lease payments at the inception of the leases.

**City of East Cleveland, Ohio**  
*Notes to the Basic Financial Statements*  
*For The Year Ended December 31, 2017*

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**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	\$197,869
Community Development	267,940
Other Governmental Funds	<u>54,850</u>
Total Governmental Funds	<u><u>\$520,659</u></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 Transaction**

The City leases 1,500 square feet of a building owned by the King Management Group to house the Domestic Violence department. The City also leases with King Management Group for storage space for the Municipal Court and the finance department. Brandon King, the Mayor, is a managing partner with the King Management Group. During 2017, the City paid rental costs of \$11,181, \$4,800 and \$6,000 respectively.

**City of East Cleveland, Ohio**  
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***Income Taxes***

The City levies a municipal income tax of two percent on all salaries, wages, lottery winnings, commissions and other compensation, and net profits earned within the City as well as on incomes of residents earned outside of the City. The Regional Income Tax Agency administers and collects income taxes for the City. Payments are remitted monthly net of collection fees of approximately 1.61 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:

<b>Governmental Activities</b>	<b>Amount</b>
CDBG/Home Grants	\$985,629
Local Government	860,060
Gas/Excise Tax	192,759
Northeast Ohio Regional Sewer District	75,000
FEMA Grant	70,082
Homestead and Rollback	69,889
Permissive Tax	20,815
Motor Vehicle Tax	16,219
VOCA Grant	13,978
Bureau of Workers' Compensation	2,836
School Resource Officer Grant	2,300
Other	700
Total	<u>\$2,310,267</u>

**Note 9 - Tax Abatements**

As of December 31, 2019, 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 \$4,587.

**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.

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***Encumbrances***

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

General	\$13,840
Community Development	593,265
Other Governmental Funds	<u>356,409</u>
Total Governmental Funds	<u>\$963,514</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 Transaction**

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 2019, the City paid rental costs of \$17,727.

The City purchased blankets and necessities for the City's inmates from American Merchandise which is affiliated with Mayor Brandon King. For 2019, the City paid \$7,375 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

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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:

<b>Governmental Activities</b>	<b>Amount</b>
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 Deer 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.

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*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	386,895
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*

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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.