



Office of Budget and Management

John R. Kasich
Governor

Timothy S. Keen
Director

April 1, 2016

The Honorable Cliff Rosenberger, Speaker
Ohio House of Representatives
77 S. High St., 14th Floor
Columbus, Ohio 43215

The Honorable Keith Faber, President
Ohio Senate
Statehouse, 1 Capitol Square, 2nd Floor
Columbus, Ohio 43215

Dear Speaker Rosenberger and President Faber:

Division (E) of section 118.07 of the Revised Code requires the Financial Planning and Supervision Commission to report annually to the Speaker of the House and the President of the Senate on the progress made by municipal corporations, counties, or townships to eliminate fiscal emergency conditions, and the failures of municipal corporations, counties, or townships to comply with Chapter 118.

Under division (D) of section 118.05 of the Revised Code, the Director of Budget and Management or my designee serves as chairperson of each Financial Planning and Supervision Commission. As chairperson, and on behalf of all commissions in operation during the period April 2015 through March 2016, I submit the following report.

Sincerely,

Timothy S. Keen
Director

cc: The Honorable Fred Strahorn, House Minority Leader
The Honorable Joe Schiavoni, Senate Minority Leader

FINANCIAL PLANNING AND SUPERVISION COMMISSIONS ANNUAL REPORT APRIL 1, 2016

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Overview of Local Governments in Fiscal Emergency during the Period April 1, 2015 through March 31, 2016

There were 24 local governments in fiscal emergency at some point during the period April 1, 2015 through March 31, 2016. Two of them were released from fiscal emergency, and four more have requested release and are awaiting completion of a termination analysis. Twelve local governments had or will have financial planning and supervision commissions under divisions (A) through (K) of section 118.05 of the Revised Code.

There are six local governments in fiscal emergency that do not have financial planning and supervision commissions¹. The 129th General Assembly amended section 118.05 of the Revised Code to create a new form of oversight for those local political jurisdictions with populations under 1,000 that meet any of the six conditions for fiscal emergency². In these cases, the powers and duties previously assumed by a commission are delegated to a financial supervisor who is employed by the Auditor of State. These local governments are not discussed in this report.

Overview of Financial Planning and Supervision Commissions and Statutory Reporting Requirements

Section 118.07(E) of the Ohio Revised Code requires the Financial Planning and Supervision Commissions created under Chapter 118 to report by April 1 of each year to the Speaker of the House and the President of the Senate on the progress made in eliminating fiscal emergency conditions for local governments that are in a state of fiscal emergency. Below is a table that shows the number of commissions currently operating, the number of commissions that requested release, the number of new commissions during the year, and the number of ongoing commissions.

Financial Planning and Supervision Commissions by Report Year

Report Year	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
Total Financial Planning	17	16	20	24	24	23	24	19	18	16
Emergencies Declared	2	3	5	5	6	0	2	2	4	0
Release requested	3	2	2	2	4	4	8	4	3	3
Released by AOS	1	4	1	1	6	1	1	7	5	2

Note: As of September 29, 2011, there were no commissions convened for local governments with populations under 1,000. The number of these governments is not reflected in this table.

¹ The six entities are: the Village of Tiro in Crawford County, the Village of Patterson in Hardin County, the Village of Trimble in Athens County, the Village of Smithfield in Jefferson County, the Village of Green Camp in Marion County, and the Village of Clarksville in Clinton County.

² The six conditions for fiscal emergency can be found in the appendix to this report.

The average length of time that the governments that are the subject of this report have been in fiscal emergency is six years. Manchester Village, however, has been in fiscal emergency for over 18 years. The most recent declaration was made on February 13, 2015, and was for the City of Maple Heights.

The following municipal corporations, counties, or townships have been declared in fiscal emergency and have either been released from fiscal emergency as a result of the termination of their commission; have requested release and are awaiting the completion of a termination analysis by the Auditor of State; or have, or will have, a commission formed and are currently working on achieving fiscal stability in order to be released from fiscal emergency.

Financial Planning and Supervision Commissions Terminated Since April 1, 2015

Hamilton Township, Warren County

Population: 23,556

Date Fiscal Emergency Declared: April 9, 2014

Date Released from Fiscal Emergency: October 1, 2015

Brief Summary:

Hamilton Township was placed in fiscal emergency as a result of deficit fund balances and a treasury deficiency. A new fiscal officer was appointed who immediately took steps to resolve the fiscal emergency.

Action Steps Taken:

- A computerized accounting system has been installed, a certified public accountant was hired to monitor financial transactions, appropriations were aligned with estimated revenues and actual need, dormant funds were closed, and the cash balances were transferred first to the general fund, and then to funds with deficit balances.
- All deficit balances were cured.
- All audit findings from previous years have been corrected.

Village of New Bavaria, Henry County

Population: 99

Date Fiscal Emergency Declared: May 6, 2010

Date Released from Fiscal Emergency: April 2, 2015

Brief Summary:

The Village of New Bavaria was declared in fiscal emergency as the result of a deficit in the general fund of more than \$12,000, as well as a corresponding treasury deficiency.

Action Steps Taken:

- A 3 mil property tax was passed, and a one percent income tax was instituted.
- Income tax revenues have exceeded expectations.
- Steps taken led to a positive balance in the general fund.

Local Governments Currently in Fiscal Emergency for Which Release has been Requested by Their Commissions

Bloom Township, Scioto County

Population: 3,235

Date Fiscal Emergency Declared:

August 9, 2005

Date of Request to Release:

February 2011

Brief Summary:

Bloom Township's deficits in its general fund and motor vehicle license tax fund were responsible for the declaration of fiscal emergency in August of 2005. Although release from fiscal emergency was requested over five years ago, the township has struggled to meet all necessary deliverables. However, much progress has been made since the date of the last report, and it is anticipated that release is on the horizon.

Action Steps Taken:

- The township decreased expenditures and adjusted allocation of expenditures resulting in positive fund balances.
- The financial supervisors are continuing to work with the township to resolve comments on the Report on Accounting Methods and arrive at a non-adverse five year forecast.

Village of Lakemore, Summit County

Population: 3,068

Date Fiscal Emergency Declared:

August 31, 2010

Date of Request to Release:

February 3, 2016

Brief Summary:

The Village of Lakemore was declared in fiscal emergency as a result of deficit fund balances and a treasury deficiency.

Action Steps Taken:

- Income tax revenues have increased due to new and expanded businesses.
- A 4.25 mil Fire Department levy increasing revenue by more than \$230,000 was approved at the November 2015 ballot.
- All deficits were eliminated in 2015 and a non-adverse 5 year forecast shows an increasing balance in the general fund.

Village of Newcomerstown, Tuscarawas County

Population: 3,822

Date Fiscal Emergency Declared: October 11, 2012

Date of Request to Release: February 8, 2016

Brief Summary:

The Village of Newcomerstown was declared in fiscal emergency as a result of deficit fund balances on October 11, 2012. The largest deficit was in the village's cemetery fund.

Action Steps Taken:

- Transfers from the general fund have eliminated all negative balances and a 5 year forecast indicates a growing balance in the general fund.
- The Report on Accounting Methods was issued on September 24, 2015, and nearly all comments have been resolved.

Village of Portage, Wood County

Population: 438

Date Fiscal Emergency Declared: April 8, 2009

Date of Request to Release: March 31, 2015

Brief Summary:

When the Village of Portage was declared in fiscal emergency, it had two funds with deficit balances totaling over \$135,000 and a treasury deficiency of over \$77,000.

Action Steps Taken:

- Portage reduced expenditures, imposed a one percent income tax and annexed property north of the village to generate additional income.
- The village's success with annexation has also attracted potential development from outside sources, which has greatly enhanced their short and long term financial picture.
- All comments on the Report on Accounting Methods have been addressed enabling the village to request release from fiscal emergency.

Local Governments Currently in Fiscal Emergency with Active Financial Planning and Supervision Commissions

City of East Cleveland, Cuyahoga County

Population: 17,843

Date Fiscal Emergency Declared: October 9, 2012

Brief Summary:

When declared to be in fiscal emergency by the Auditor of State, the City of East Cleveland had deficit fund balances in an amount exceeding \$5.8 million. The city is no stranger to fiscal emergency, having been first declared in 1988. After a struggle to achieve fiscal solvency that stretched over 17 years, East Cleveland was terminated from fiscal emergency in 2006. However, many of the problems that plagued the city then continue today.

East Cleveland's financial difficulties are the result of a structural imbalance that has resulted in the provision of basic services at costs that exceed revenues. It is not just the cost of services that has compounded the problem, but the loss of revenues that has devastated the city's financial base. The city income tax, which is its greatest source of revenue, has been dealt a serious blow by the loss of employers such as the United States Postal Service and Huron Road Hospital.

Action Steps Taken:

- East Cleveland has increased garbage fees, leased a cell tower, sold property, combined some job positions, and instituted a city-wide layoff and salary freeze.
- It has also transferred cash from inactive funds via the general fund to reduce and/or eliminate deficit balances in a number of funds.
- While the city has been able to reduce deficit fund balances to around \$3.4 million, it continues to encounter difficulty in paying past due accounts payables, which were also around \$3.4 million as of the date of this report.
- Petitions were circulated and certified with the Cuyahoga County Board of Elections to form a six-member commission with the City of Cleveland to explore a merger between the two cities. This petition process, however, has been placed under legal scrutiny, and this scrutiny has stalled any examination of the merits of merger.

Outlook:

Until merger or another alternative is explored, the City will continue to pay payroll and pension costs with little cash left for the payment of other costs of operation. Given its demographic and economic base, it is unlikely that East Cleveland will extricate itself from its financial distress by current means available under Chapter 118 of the Revised Code.

Village of Edgerton, Williams County

Population: 2,012

Date Fiscal Emergency Declared: December 17, 2013

Brief Summary:

The Village of Edgerton was declared in fiscal emergency as a result of deficit fund balances in the general, street construction, maintenance and repair, state highway, infrastructure, storm water, and garbage funds as of August 31, 2013. Although the village's financial records did not rise to the level of unauditable, much reconstruction, revisions, and reconciliation had to take place before the true nature of the village's financial distress was known.

Action Steps Taken:

- The passage of an additional 0.75% income tax with no credit given for income taxes paid elsewhere in November of 2014 has given the village a needed boost in revenues.
- In addition, the books have now been balanced and the recent implementation of new financial software will ensure that the village will have timely and accurate information upon which to base financial decisions in the future.

Outlook:

Since fiscal emergency was declared, the village administration has stressed that it is their goal to get out of fiscal emergency as soon as possible and they have worked admirably to attain release. A recent update to its five-year forecast indicates that Edgerton may be in a position to request release in 2017 and could possibly request release earlier should the income tax base broaden or other opportunities present themselves.

City of Galion, Crawford County

Population: 10,512

Date Fiscal Emergency Declared: August 9, 2004

Brief Summary:

When the city of Galion was declared in fiscal emergency, it had 13 separate funds that were running deficits totaling more than \$10.9 million, and a treasury deficiency of slightly over \$4.3 million.

Action Steps:

- Throughout the years, the city has reduced general expenditures, employed layoffs, aggressively negotiated labor and health insurance contracts, and increased revenues through water, sewer, and electric rate hikes as well as increases in income tax.
- In November of 2012, voters abolished the city charter, and Galion is now a statutory municipal corporation. The change in governance has required more than a few adjustments to operations.

Outlook:

The City's most recent financial recovery plan indicates healthy fund balances with more than adequate carryover cash. Galion continues to work through challenges brought about by its loss of institutional knowledge and a lack of experience in some governmental procedures and requirements. Until the city is able to achieve comfortable level of financial expertise, Galion will remain in fiscal emergency so that it can benefit from the assistance of staff from the Auditor of State's Office.

Village of Leipsic, Putnam County

Population: 2,093

Date Fiscal Emergency Declared: September 16, 2010

Brief Summary:

As of May 31, 2010 when a fiscal emergency analysis was conducted, the Village of Leipsic had five funds with deficits totaling over \$1 million and three OWDA loans for which payments were thirty days past due. Leipsic had incurred more debt than it could reasonably manage in an attempt to keep pace with the demands of investments made in the area.

Action Steps Taken:

- The Village of Leipsic has increased water and sewer rates to cover debt service obligations and future maintenance and improvements to those systems. It will continue to refinance debt so that the burden of these payments can be more readily handled and will search out grants and other funding as well.
- The village also renewed a 0.5% income tax for another ten years starting in 2016. Nine percent of this additional tax is used to remediate blighted properties with the remainder used to retire the reservoir debt.
- The village continues to monitor business activity for impact on its tax base.

Outlook:

As of December 2015, all of the village's fund balances were in a positive position and the five-year forecast included in its recent recovery plan indicates healthy balances in all years. The commission will meet in April of 2016 to review the first quarter's finances at which time it is anticipated that it will request release from fiscal emergency.

Manchester Township, Adams County

Population: 2,052

Date Fiscal Emergency Declared: September 20, 2002

Brief Summary:

When fiscal emergency was declared, Manchester Township had a number of funds with deficit balances, a treasury deficiency, and had used gas tax revenues to support general operations.

Action Steps Taken:

In almost ten years of fiscal emergency, improvements to the township's financial picture have been negligible. Past levy results indicate a reluctance to support the township with additional funding, and the general fund remains in a deficit position.

Outlook:

The township is a likely candidate for dissolution, as it has no feasible means to eradicate its deficit balances.

Village of Manchester, Adams County

Population: 2,052

Date Fiscal Emergency Declared: September 29, 1997

Brief Summary:

Deficit fund balances prompted the declaration of fiscal emergency for the Village of Manchester.

Action Steps Taken:

- Through various spending cuts and revenue enhancements, the village was originally ready to request release from fiscal emergency in 2005.
- Remaining deficits and issues with the inability of the village's clerk to correct the problems identified in the Report on the Accounting Methods precluded removal at that time.
- Since 2005, the village has requested release a number of times, only to face similar issues with staffing and finances. At the commission meeting in late December, the commission unanimously decided to rescind its request for release and to continue to provide assistance and guidance to the village.

Outlook:

The village has recently filled the finance clerk position with a former council person who is very detail oriented and anxious to assist Manchester in its removal from fiscal emergency. The commission will meet more regularly over the next few months as the finance clerk gains more experience and knowledge in her role. Future commission meetings will continue to closely examine finances until such time as the village reaches fiscal stability.

City of Maple Heights, Cuyahoga County

Population: 23,138

Date Fiscal Emergency Declared: February 13, 2015

Brief Summary:

When Maple Heights was declared in fiscal emergency, it had debt payments that were thirty days past due, and deficit funds totaling almost \$2.8 million. The Commission first met on September 24, 2015, and a financial plan was submitted by Jan. 24, 2016. The City ended 2015 with a \$2.5 million deficit in the general fund.

Action Steps Taken:

- Expenditure reductions that were established prior to the end of the year and the passage of a Senior Center levy form the basis of the financial recovery plan.
- The commission is monitoring revenue and expenditures to assure annual reduction of the deficit.

Outlook:

At the present time it appears that the substantial negative balance in the general fund and other fiscal emergency conditions will not be cleared for nearly three years.

City of Massillon, Stark County

Population: 32,149

Date Fiscal Emergency Declared: October 8, 2013

Brief Summary:

A deficit of \$2.4 million in the general fund from 2012 was carried over into 2013, and the Auditor of State declared the city in fiscal emergency. The deficit balance was reduced to \$1.1 million for the start of 2014.

Action Steps Taken:

- The deficit balance was eliminated through spending cuts, increased income tax collections, and the receipt of one time revenues such as workers' compensation rebates, and personal property and estate tax collections.
- Also among the financial plan initiatives was the reduction of an income tax credit from 100 percent to 75 percent for residents employed outside the city.
- By 2015, the general fund carried a \$1 million balance and ended the year with a \$1.9 million unencumbered general fund balance.

Outlook:

The city's income tax increase of 0.2% dedicated to street repair and equipment replacement failed to gain enough votes on the March 15, 2016 ballot. As a result, the city will need to re-evaluate its current financial plan. While the city has significant unmet needs, emergency conditions no longer exist. Currently, expenditures have been kept in check and the general fund balance is growing. If this continues the Commission will likely vote this year to have the Auditor of State to evaluate the City's position for release from fiscal emergency.

City of Niles, Trumbull County

Population: 19,266

Date Fiscal Emergency Declared: October 7, 2014

Brief Summary:

The City of Niles was declared in fiscal emergency on October 7, 2014 due to deficit fund balances, most significantly in the general and water funds. Shortly thereafter, it was also determined that the city had not performed bank reconciliations since December 31, 2011.

Action Steps Taken:

- Working with the financial supervisors, all reconciliations were completed and a 2015 starting balance of the general fund was determined to be \$1,399,140.
- A large part of the City's first financial plan, passed June 2015, was based on the passage of an income tax increase that was defeated at the November ballot.
- However, the city did install new financial software that is capable of providing the Commission with reporting necessary to supervise the city's recovery. The Niles water fund started 2015 with a (\$2,358,527) balance and due to fee increases ended the year with a (\$1,610,057) balance. The water fund is projected to continue to recover and will likely achieve a positive balance within 3 years.
- More recently, layoffs occurred in February to begin to reduce spending.
- The city decided to move forward another ballot initiative to increase income taxes by .5% to 2.00%. This tax increase was approved by voters in the March primary and will increase revenue by approximately \$2 million annually; however, the additional revenue in 2016 is expected to only be about \$500k.

Outlook:

Niles ended 2015 with \$248,134 in the general fund and that was only possible after transferring \$474,200 from dormant funds to the general fund. The deficit level for 2016 was projected at \$1.5 million before the tax increase was approved. The new revenue will dramatically improve the city's finances, however, spending in certain areas still needs to be brought in line before all fund balances improve to a level that the city can be considered for removal from fiscal emergency.

St. Clair Township, Butler County

Population: 6,908

Date Fiscal Emergency Declared: May 15, 2014

Brief Summary:

St. Clair Township was declared in fiscal emergency on May 15, 2014 as a result of deficit fund balances. At the time, the general, life squad, ambulance and emergency, and lighting districts funds were all in a deficit position. To complicate matters further, the financial records were in disarray.

Action Steps Taken:

- Before the first commission meeting, the township had reduced dental and health insurance and discontinued the payment of cell phone coverage for the trustees.
- With a great deal of help from the State Auditor's Office, the new fiscal officer was able to reconcile the bank accounts and adjust appropriations to be in line with estimated revenues. Commission members are now able to receive financial information and monitor progress made by the Township.

Outlook:

While an additional 1.5 mil levy placed on the November 2015 ballot overwhelmingly failed, the township has reduced expenditures enough to gradually remove itself from fiscal emergency over time without additional revenues.

City of Wellston, Jackson County

Population: 5,663

Date Fiscal Emergency Declared: October 1, 2009

Brief Summary:

When the City of Wellston was declared in fiscal emergency, it had a treasury deficit of over \$1.7 million. Since this time, the city has been able to reduce cash deficits and has actually built positive balances in some funds that previously were in the red.

Action Steps Taken:

- Through a combination of tax increases, reductions in expenses, and expansion of its tax base, all of Wellston's funds were in a positive position at the end of calendar year 2015.
- Wellston established a FIRE and EMS Training Academy for the purpose of providing required certified training for firefighters in its geographical area. Although it has not been in operation long enough to substantiate its ability to bring in additional funding for Wellston's fire department, the academy has not had a negative effect on the budget. As the Academy continues to draw local and perhaps state attention, the city may benefit in less tangible ways.

Outlook:

It is projected that fund balances will continue to remain in the black throughout the next five years with the exception of the general fund. The deficit projected for this fund is primarily due to the retention of a position in the police department for which grant funds were not received. Wellston prefers to keep this position due to the movement eastward of the opioid trade and will continue to apply for grant funding in the future.

The city has continued to address comments made on the Report on Accounting Methods. As soon as it overcomes the deficit in the five year forecast of the general fund, the commission will request release from fiscal emergency.

Village of West Mansfield, Logan County

Population: 682

Date Fiscal Emergency Declared: August 13, 2009

Brief Summary:

The Village of West Mansfield had five funds with deficit fund balances totaling well over \$200,000 and a corresponding treasury deficiency when it was placed in fiscal emergency. The most problematic of these deficits involved water and sewer operations.

Action Steps Taken:

- Fund deficits were addressed over the years with a combination of renewal levies and rate hikes ranging from 20 percent in 2012 to one percent in years 2014 and onward.
- Improvements to the water and sewer systems have been made with grants from the Ohio Public Works Commission and the Development Services Agency as well as debt financing.
- To offset some of the costs borne by residents as a result of utility rate hikes, West Mansfield chose not to renew a 2.5 mil levy for street repairs.
- While the deficits in the water and sewer funds were extinguished over time, concerns arose about the health of the general fund as a result of the village's stagnant tax base. The village enacted a one percent income tax that became effective in January of 2013 and In November of 2015 passed a 3 mil levy for general operations.

Outlook:

All funds of the village are stable, although more work is needed to address the remaining comments on the Report on Accounting Methods. It is anticipated that the commission will request release from fiscal emergency sometime in late spring or summer.

APPENDIX

Conditions for Declaration and Termination of Fiscal Emergency

Section 118.03 of the Revised Code details the six conditions under which a municipal corporation, county, or township may be declared in fiscal emergency and placed under the oversight of a financial planning and supervision commission. These conditions are:

1. The existence of a default on any debt obligation of more than thirty days;
2. The failure for lack of cash in the funds to make payment of all payroll to employees in the amounts and at the times required by law, ordinances, resolutions, or agreements for more than thirty days after such time for payment or beyond a period of extension, or beyond the expiration of ninety days from the original time for payment, whichever occurs first;
3. An increase, by action of the county budget commission pursuant to division (D) of section 5705.31 of the Revised Code, in the minimum levy of the municipal corporation, county, or township for the current or next fiscal year which results in a reduction in the minimum levies for one or more other divisions or taxing districts;
4. The existence of past due accounts payable from the general fund that were due and payable for at least thirty days at the end of the preceding fiscal year, or to which a penalty has been added for failure to pay at the end of the fiscal year. Such past due accounts payable must exceed one-sixth of the general fund budget for that year.

OR

The existence of past due accounts payable from all funds that were due and payable for at least thirty days at the end of the preceding fiscal year, or to which a penalty has been added for failure to pay at the end of the fiscal year. Such past due accounts payable must exceed one-sixth of available revenues during the preceding year, excluding nonrecurring receipts.

5. The existence of a condition in which the aggregate of deficit amounts of all deficit funds at the end of the preceding fiscal year, less the total of any year-end balance in the general fund and in any special fund that may be transferred to meet such deficit, exceeded one-sixth of the total of the general fund budget for that year and the receipts to those deficit funds during that year other than from transfers from the general fund.
6. The existence of a condition in which, at the end of the preceding fiscal year, moneys and marketable investments in or held for the unsegregated treasury of the municipal corporation, county or township, minus outstanding checks and warrants, were less in amount than the aggregate of the positive balances of the general fund and those special funds the purposes of which the unsegregated treasury is held to meet, and such deficiency exceeded one-sixth of the total amount received into the unsegregated treasury during the preceding fiscal year.

Termination of the financial planning and supervision commission formed as a result of the declaration of fiscal emergency by the Auditor of State thereby releases the municipal corporation, county, or township from fiscal emergency. Under section 118.27 of the Revised Code, the municipal corporation, county, or township must do all of the following if the commission is to be terminated and release from fiscal emergency is to occur:

1. Plan and is in the process of a good faith implementation of an effective financial accounting and reporting system, and it is reasonably expected that such implementation will be completed within two years;

2. Correct and eliminate, or has planned and is in the process of good faith implementation of correcting and eliminating, all of the fiscal emergency condition and no new fiscal emergency conditions have occurred;
3. Met the objectives of the financial recovery plan described in section 118.06 of the Revised Code;
4. Prepare a financial forecast for a five-year period in accordance with the standards issued by the Auditor of State. The Auditor of State must render an opinion that the financial forecast is considered to be non-adverse.

The first condition for termination is met by addressing the comments made on the Report on Accounting Methods issued by the Auditor of State's office. This report focuses on the development or lack of written policies, the need for adequate cash controls, and the use of spending restraints among other items. By addressing these comments, the municipal corporation, county, or township often addresses the reasons why it found itself in fiscal emergency, thereby precluding a repeat of this declaration.