



Mary Taylor, CPA
Auditor of State

**East Cleveland City School District
Cuyahoga County, Ohio**

**Financial Forecast
For the Fiscal Year Ending June 30, 2008**

Local Government Services Section

East Cleveland City School District
Cuyahoga County

Table of Contents

Title	Page
Table of Contents	1
Certification	2
Independent Accountant's Report	3
Statement of Revenues, Expenditures and Changes in Fund Balance for the Fiscal Years Ended June 30, 2005 through 2007 Actual; Fiscal Year Ending June 30, 2008 Forecasted	4
Summary of Significant Forecast Assumptions and Accounting Policies	5



Mary Taylor, CPA
Auditor of State

Financial Planning and Supervision Commission
Ohio Department of Education
25 South Front Street
Columbus, Ohio 43215

and

Board of Education
East Cleveland City School District
14305 Shaw Avenue, Modular Building
East Cleveland, Ohio 44112

CERTIFICATION

Certification is hereby made that, based upon the requirement set forth in Section 3316.08, Revised Code, the Local Government Services Section of the Auditor of State's Office has examined the financial forecast of the general fund of the East Cleveland City School District, Cuyahoga County, Ohio, and issued a report dated April 7, 2008. The forecast is based on the assumption that the School District will continue to operate its instructional program in accordance with its adopted school calendar and pay all obligations. Additional significant assumptions are set forth in the forecast. Some assumptions inevitably will not materialize, and unanticipated events and circumstances may occur; therefore, the actual results of operations during the forecast period will vary from the forecast, and the variations may be material.

The forecast reflects an operating surplus for the fiscal year ending June 30, 2008 of \$24,310,000.

The forecasted revenues include all property taxes scheduled for settlement during the forecast period. The forecast excludes the receipt of any advances against fiscal year 2009 scheduled property tax settlements. The potential advances have been excluded due to the School District's inability to appropriate this revenue until received and the uncertainty of the timing of any advances. Currently, it is the Board's intent not to appropriate any such advances for fiscal year 2008.

MARY TAYLOR, CPA
Auditor of State

A handwritten signature in black ink that reads "Peter R. Sorem".

Peter R. Sorem
Chief of Local Government Services

May 14, 2008



Mary Taylor, CPA

Auditor of State

Board of Education
East Cleveland City School District
14305 Shaw Avenue, Modular Building
East Cleveland, Ohio 44112

Independent Accountant's Report

We have examined the accompanying forecasted statement of revenues, expenditures and changes in fund balance of the general fund of the East Cleveland City School District for the fiscal year ending June 30, 2008. The East Cleveland City School District's management is responsible for the forecast. Our responsibility is to express an opinion on the forecast based on our examination.

Our examination was conducted in accordance with the attestation standards established by the American Institute of Certified Public Accountants, and accordingly, included such procedures as we considered necessary to evaluate both the assumptions used by management and the preparation and presentation of the forecast. We believe that our examination provides a reasonable basis for our opinion.

In our opinion, the accompanying forecast is presented in conformity with guidelines for presentation of a forecast established by the American Institute of Certified Public Accountants, and the underlying assumptions provide a reasonable basis for the Board's forecast. However, there will usually be differences between the forecasted and actual results, because events and circumstances frequently do not occur as expected, and those differences may be material. We have no responsibility to update this report for events and circumstances occurring after the date of this report.

The accompanying statement of revenues, expenditures and changes in fund balance of the general fund of East Cleveland City School District for the fiscal years ended June 30, 2005, 2006 and 2007 were compiled by us in accordance with the Statements on Standards for Accounting and Review Services issued by the American Institute of Certified Public Accountants. A compilation is limited to presenting in the form of financial statements information that is the representation of management. We have not audited or reviewed this financial information, and, accordingly, do not express an opinion or any other form of assurance on them. Management has elected to omit substantially all of the disclosures associated with the historical financial statements; these disclosures might influence a user's conclusions regarding the School District's results of operations. Accordingly, these financial statements are not designed for those who are not informed about such matters.

Mary Taylor

Mary Taylor, CPA
Auditor of State

April 7, 2008

East Cleveland City School District
Cuyahoga County
Statement of Revenues, Expenditures and Changes in Fund Balance
For the Fiscal Years Ended June 30, 2005 Through 2007 Actual;
For the Fiscal Year Ending June 30, 2008 Forecasted
General Fund

	Fiscal Year 2005 Actual	Fiscal Year 2006 Actual	Fiscal Year 2007 Actual	Fiscal Year 2008 Forecasted
Revenues				
General Property Tax	\$9,544,000	\$9,493,000	\$9,010,000	\$8,214,000
Tangible Personal Property Tax	1,397,000	1,646,000	1,558,000	1,713,000
Unrestricted Grants-in-Aid	30,249,000	30,036,000	30,484,000	31,760,000
Restricted Grants-in-Aid	5,871,000	6,234,000	6,159,000	3,969,000
Property Tax Allocation	2,032,000	1,967,000	2,064,000	2,261,000
All Other Revenues	3,128,000	2,818,000	4,159,000	4,934,000
<i>Total Revenues</i>	<u>52,221,000</u>	<u>52,194,000</u>	<u>53,434,000</u>	<u>52,851,000</u>
Other Financing Sources				
Advances In	0	2,051,000	3,432,000	2,211,000
Operating Transfers In	0	0	10,000	0
<i>Total Other Financing Sources</i>	<u>0</u>	<u>2,051,000</u>	<u>3,442,000</u>	<u>2,211,000</u>
<i>Total Revenues and Other Financing Sources</i>	<u>52,221,000</u>	<u>54,245,000</u>	<u>56,876,000</u>	<u>55,062,000</u>
Expenditures				
Personal Services	25,664,000	24,693,000	22,738,000	23,731,000
Employees' Retirement/Insurance Benefits	7,542,000	6,899,000	8,010,000	8,266,000
Purchased Services	10,102,000	10,914,000	11,940,000	12,942,000
Supplies and Materials	782,000	886,000	1,161,000	1,670,000
Capital Outlay	281,000	45,000	92,000	967,000
Debt Service:				
Principal - Solvency Assistance Advance	3,849,000	0	0	0
Other Objects	662,000	365,000	412,000	430,000
<i>Total Expenditures</i>	<u>48,882,000</u>	<u>43,802,000</u>	<u>44,353,000</u>	<u>48,006,000</u>
Other Financing Uses				
Operating Transfers Out	1,345,000	740,000	208,000	95,000
Advances Out	2,058,000	2,033,000	2,211,000	2,275,000
<i>Total Other Financing Uses</i>	<u>3,403,000</u>	<u>2,773,000</u>	<u>2,419,000</u>	<u>2,370,000</u>
<i>Total Expenditures and Other Financing Uses</i>	<u>52,285,000</u>	<u>46,575,000</u>	<u>46,772,000</u>	<u>50,376,000</u>
<i>Excess of Revenues and Other Financing Sources Over (Under) Expenditures and Other Financing Uses</i>	(64,000)	7,670,000	10,104,000	4,686,000
Cash Balance July 1	<u>4,114,000</u>	<u>4,050,000</u>	<u>11,720,000</u>	<u>21,824,000</u>
Cash Balance June 30	<u>4,050,000</u>	<u>11,720,000</u>	<u>21,824,000</u>	<u>26,510,000</u>
Encumbrances and Reserves:				
Actual/Estimated Encumbrances June 30	1,928,000	2,244,000	2,167,000	2,200,000
Reservations of Fund Balance for:				
Textbooks	261,000	123,000	0	0
DPIA/Poverty Based Assistance	1,221,000	416,000	306,000	0
Total Encumbrances and Reserves of Fund Balance	<u>3,410,000</u>	<u>2,783,000</u>	<u>2,473,000</u>	<u>2,200,000</u>
Unencumbered/Unreserved Fund Balance June 30	<u>\$640,000</u>	<u>\$8,937,000</u>	<u>\$19,351,000</u>	<u>\$24,310,000</u>

See accompanying summary of significant forecast assumptions and accounting policies
See accountant's report

East Cleveland City School District
Cuyahoga County
Summary of Significant Assumptions and Accounting Policies
For the Fiscal Year Ending June 30, 2008

Note 1 – The School District

The East Cleveland City School District (School District) is located in Cuyahoga County and encompasses all of the City of East Cleveland. The School District is organized under Article VI, Sections 2 and 3, of the Constitution of the State of Ohio. The legislative power of the School District is vested in the Board of Education, consisting of five members elected at large for staggered four year terms. The School District currently operates sixteen instructional buildings. The School District is staffed by 157 non-certified, 285 certificated and 34 administrative personnel who provide services to 3,632 students and other community members.

Note 2 - Nature of the Forecast

This financial forecast presents, to the best of the East Cleveland City School District Board of Education's knowledge and belief, the expected revenues, expenditures and operating balance of the general fund. Accordingly, the forecast reflects the Board of Education's judgment of the expected conditions and its expected course of action as of April 7, 2008, the date of this forecast. The assumptions disclosed herein are those that management believes are significant to the forecast. Differences between the forecasted and actual results will usually arise because events and circumstances frequently do not occur as expected, and those differences may be material.

Note 3 – Nature of the Presentation

The forecast presents the revenues, expenditures, and changes in fund balance of the general fund. Under State law, certain general fund resources received from the State must be spent on specific programs. These resources and the related expenditures have been segregated in the accounting records of the School District to demonstrate compliance. State laws also require general fund resources pledged for the repayment of debt to be recorded directly in the debt service fund. For presentation in the forecast, the poverty based assistance fund, disadvantaged pupil impact aid (DPIA) fund and general fund supported debt are included in the general fund.

Note 4 - Summary of Significant Accounting Policies

A. - Basis of Accounting

This financial forecast has been prepared on a basis of cash receipts, disbursements, and encumbrances, which is consistent with the required budget (non-GAAP) basis of accounting used to prepare the historical financial statements. Under this basis of accounting, certain revenue and related assets are recognized when received rather than when earned and certain expenditures are recognized when paid rather than when the obligation is incurred. However, by virtue of Ohio law, the School District is required to maintain the encumbrance method of accounting. This method requires purchase orders, contracts, and other commitments for the expenditure of monies to be recorded as the equivalent of an expenditure in order to reserve that portion of the applicable appropriation and to determine and maintain legal compliance.

East Cleveland City School District
Cuyahoga County
Summary of Significant Assumptions and Accounting Policies
For the Fiscal Year Ending June 30, 2008

B. - Fund Accounting

The School District maintains its accounting in accordance with the principles of "fund" accounting. Fund accounting is a concept developed to meet the needs of governmental entities in which legal or other constraints require the segregation of specific receipts and disbursements. The transactions of each fund are reflected in a self-balancing group of accounts, an accounting entity which stands separate from the activities reported in other funds. The restrictions associated with each class of funds are as follows:

Governmental Funds

General Fund - The general fund is the operating fund of the School District and is used to account for all financial resources except those required to be accounted for in another fund. The general fund balance is available to the School District for any purpose provided it is disbursed or transferred in accordance with Ohio law.

Special Revenue Funds - Special revenue funds account for the proceeds of specific revenue sources (other than for major capital projects) that are legally restricted to disbursements for specified purposes.

Debt Service Fund - Debt service funds account for the accumulation of resources for, and the payment of, general long-term and short-term debt principal and interest.

Capital Projects Funds - Capital projects funds account for financial resources used for the acquisition or construction of major capital facilities (other than those financed by proprietary funds).

Permanent Funds - Permanent funds account for financial resources that are legally restricted to the extent that only earnings, and not principal, may be used for the benefit of the School District or its students.

Proprietary Funds

Enterprise Funds - Enterprise funds account for any activity for which a fee is charged to external users for goods or services.

Internal Service Funds - Internal Service funds are used to account for the financing of goods or services provided by one department or agency to other departments or agencies of the School District, or to other governments on a cost-reimbursement basis.

Fiduciary Funds

Fiduciary funds account for assets held by the School District in a trustee capacity or as an agent for individuals, private organizations or other government units. The fiduciary fund category is split into four classifications: pension trust funds, investment trust funds, private purpose trust funds and agency funds.

C. - Budgetary Process

The budgetary process is prescribed by provisions of the Ohio Revised Code and entails the preparation of budgetary documents within an established timetable. The major documents prepared are the tax budget, the certificate of estimated resources, and the appropriation resolution, all of which are prepared on the budgetary basis of accounting. The certificate of estimated resources and the appropriations resolution are subject to amendment throughout the year with the legal restriction that appropriations cannot exceed estimated resources, as certified. All funds, other than agency funds, are legally required to be budgeted and appropriated.

East Cleveland City School District
Cuyahoga County
Summary of Significant Assumptions and Accounting Policies
For the Fiscal Year Ending June 30, 2008

Budget – A budget of estimated cash receipts and disbursements is submitted to the Cuyahoga County Auditor, as secretary of the county budget commission, by January 20 of each year, for the succeeding fiscal year.

Estimated Resources - The county budget commission certifies its actions to the School District by March 1. As part of this certification, the School District receives the official certificate of estimated resources which states the projected receipts of each fund. On or about July 1, this certificate is amended to include any unencumbered balances from the preceding year. Prior to June 30, the School District must revise its budget so that total contemplated expenditures from any fund during the ensuing fiscal year will not exceed the amount stated in the certificate of estimated resources. The revised budget then serves as the basis for the annual appropriation measure.

Appropriations - A temporary appropriation measure to control cash disbursements may be passed on or about July 1 of each year. The temporary appropriation measure remains in place until the annual appropriation measure is adopted for the entire year. The appropriation measure may be amended or supplemented during the year as new information becomes available.

Encumbrances - The School District uses the encumbrance method of accounting. Under this system, purchase orders, contracts, and other commitments for the expenditure of funds are recorded in order to reserve a portion of the applicable appropriation.

Note 5 - General Operating Assumptions

The East Cleveland City School District will continue to operate its instructional program in accordance with its adopted school calendar and pay all obligations. The forecast contains those expenditures the Board of Education has determined to be necessary to provide for an adequate educational program.

Note 6 - Significant Assumptions for Revenues and Other Financing Sources

A. - General and Tangible Personal Property Taxes

Property taxes are applied to real property, public utility real and personal property and tangible personal property used in businesses which are located within the School District. Property taxes are collected for, and distributed to, the School District by the county auditor and treasurer. Settlement dates, on which collections are distributed to the School District, are established by State statute. The School District may request advances from the Cuyahoga County Auditor as the taxes are collected. When final settlements are made, any amounts remaining to be distributed to the School District are paid. Deductions for auditor and treasurer fees, advertising delinquent taxes, election expenses, and other fees are made at these settlement times. The amounts shown in the revenue section of the forecast represent gross property tax revenue.

Property taxes are levied and assessed on a calendar year basis while the School District's fiscal year runs from July through June. Property tax revenue received during calendar year 2007 (the collection year) for real and public utility property taxes represents collections of 2006 taxes (the tax year). Property tax payments received during calendar year 2007 for tangible personal property (other than public utility property) are for calendar year 2007 taxes. First half calendar year tax collections are received by the School District in the second half of the fiscal year. Second half calendar year tax distributions occur in the first half of the following fiscal year.

East Cleveland City School District
 Cuyahoga County
 Summary of Significant Assumptions and Accounting Policies
 For the Fiscal Year Ending June 30, 2008

State law allows for certain reductions in the form of rollbacks and homestead exemptions for real estate taxes. The State reimburses the School District for all revenues lost due to these exemptions. The amount of the reimbursement is presented in the account "property tax allocation". Beginning in tax year 2005, collection year 2006, the State of Ohio eliminated the ten percent rollback on commercial and industrial real property. The change increased real property taxes collected against commercial and industrial real property and decreased property tax allocation revenue.

Prior to fiscal year end, a school district may request an advance of real property tax collections that ordinarily would be settled in August and used to finance the upcoming fiscal year. The forecast excludes the receipt of any advances against fiscal year 2009 scheduled property tax settlements. The potential advances have been excluded due to the School District's inability to appropriate this revenue until received and the uncertainty of the timing of any advances. Currently, it is the Board's intent not to appropriate any such advances for fiscal year 2008.

The property tax revenues for the general fund are generated from several levies. The current levies being collected for the General Fund, the year approved, last year of collection, and the full tax rate are as follows:

Tax Levies	Year Approved	Last Calendar Year of Collection	Full Tax Rate (per \$1,000 of assessed valuation)
Inside Ten Mill Limitation (Unvoted)	n/a	n/a	\$4.78
Continuing Operating	1976	n/a	50.90
Continuing Operating	1982	n/a	5.90
Continuing Operating	1985	n/a	7.90
Continuing Operating	1989	n/a	8.90
Continuing Operating	1992	n/a	10.00
Total Tax Rate			<u>\$88.38</u>

The School District also has levies for bonded debt and school facilities maintenance totaling \$3.72 per \$1,000 of assessed valuation. The School District's total rate is \$92.10 per \$1,000 of valuation.

Ohio law provides for a reduction in the rates of voted levies to offset increased values resulting from a reappraisal of real property. Reduction factors are applied to voted levies so that each levy yields the same amount of real property tax revenues on carryover property as in the prior year. For all voted levies except emergency and debt levies, increases in revenues are restricted to amounts generated from new construction. Emergency and debt levies are intended to generate a set revenue amount annually. The revenue generated by emergency and debt levies is not affected by changes in real property valuation. The reduction factors are computed annually and applied separately for residential/agricultural real property and commercial/industrial real property. Reduction factors are not applied to inside millage (an unvoted levy) nor to tangible personal or public utility personal property levy rates. State law also prohibits the reduction factors from reducing the effective millage of the sum of the general fund current operating levies (excluding emergency levies) plus inside millage used for operating purposes below 20 mills. For the General Fund, the effective residential and agricultural real property tax rate is \$27.02 per \$1,000 of assessed valuation and the effective commercial and industrial real property tax rate is \$50.09 per \$1,000 of assessed valuation for collection year 2008.

East Cleveland City School District
Cuyahoga County
Summary of Significant Assumptions and Accounting Policies
For the Fiscal Year Ending June 30, 2008

Public utility real and personal property taxes are collected and settled by the county with real estate taxes and are recorded as general property taxes. Beginning in 2001, the Ohio General Assembly reduced the assessment rate for certain tangible personal property of electric and gas utilities from 88 percent to 25 percent. Starting in tax year 2005, the assessment rate for personal property owned by telephone utilities prior to 1995 was being phased down from 88 percent to 25 percent (in tax year 2007) over a three-year period. Beginning in 2007, House Bill 66 switched telephone companies from being public utilities to general business taxpayers and began a four year phase out of the tangible personal property tax on local and inter-exchange telephone companies. No tangible personal property taxes will be levied or collected after calendar year 2010 on local and inter-exchange telephone companies. The State of Ohio reimburses the School District for the loss of tangible personal property taxes as a result of these changes within certain limitations (see Property Tax Allocation Revenue below).

General Property Tax - General property tax revenue includes real estate taxes, public utility property taxes and manufactured home taxes. The amount shown in the revenue section of the forecast schedule represents gross property tax revenue and is based upon information provided by the Cuyahoga County Auditor. The School District anticipates a decrease of \$796,000 from the prior fiscal year due to a decrease in the collection of delinquent property taxes. The delinquencies as of December 31, 2007 were \$7,137,000.

Tangible Personal Property Tax – Tangible personal property tax is levied on machinery and equipment, furniture and fixtures, and inventory of businesses. Effective for tax years 2005 and 2006, the 23 percent assessment rate on business inventory was to be reduced by two percent if the total statewide collections of personal property taxes for the second preceding year exceed the total statewide collections of property taxes for the third preceding year. Effective for tax years 2007 and beyond, the assessment rate for inventory was to be reduced by two percent per year until it is completely phased out regardless of the growth in collections.

Beginning in 2006, House Bill 66 will phase out by 25 percent each year tangible personal property tax on most business inventory, manufacturing machinery and equipment, and furniture and fixtures. This change supersedes the changes and phase out periods addressed above. No tangible personal property taxes will be levied or collected in calendar year 2009 from general business taxpayers (except telephone companies whose last year to pay tangible personal property tax is 2010). Most new manufacturing machinery and equipment that would have been first taxable in tax year 2006 and thereafter will not be subject to any tangible personal property tax. The School District, based on the last year of collections before the phase out period, will lose approximately \$1,400,000 annually, when the tangible personal property tax is completely phased out in 2009. The State of Ohio will reimburse the School District for the loss of tangible personal property taxes as a result of the changes in House Bill 66 within certain limitations (see Property Tax Allocation below).

Tangible personal property tax revenues include actual October 2007 and the estimated June 2008 personal property tax settlements. While tangible personal property tax revenues are being phased out at a rate of 25 percent per year, the anticipated revenue in fiscal year 2008 does not reflect this change. In fiscal year 2008, the increase is due to delinquent tax payments from Time Warner Cable Company and Ohio Bell Telephone Company of \$467,000 and \$134,000 respectively.

East Cleveland City School District
 Cuyahoga County
 Summary of Significant Assumptions and Accounting Policies
 For the Fiscal Year Ending June 30, 2008

B. - Unrestricted Grants-in-Aid

Unrestricted Grants-in-Aid represent State Foundation payments. State Foundation payments include formula aid and various categorical aid programs such as special and gifted education, career and technical education, and transportation. Other programs such as equity and parity aid, which are provided to address certain policy issues or correct flaws in formula aid, are also included in this revenue.

The State's foundation program is established by Chapter 3317 of the Ohio Revised Code. The semi-monthly payments are calculated by the State Department of Education, Division of School Finance, on the basis of pupil enrollment (ADM), times a per pupil foundation level, less the equivalent of 23 mills times the school district's taxable property valuation. In prior years, the per pupil foundation amount was increased by a regional cost of doing business factor. The cost of doing business factor was phased out over three years beginning in fiscal year 2006. The per pupil foundation level is set by the State Legislature. Historically, the per pupil amount has increased 2.2 percent since 2005. The per pupil foundation level for fiscal years 2005 through 2008 is as follows:

Fiscal Year	Per Pupil Foundation Level
2005	\$5,169
2006	5,283
2007	5,403
2008	5,565

The anticipated unrestricted grants-in-aid for fiscal year 2008 are based on current estimates available from the Ohio Department of Education. The most recent estimates reported on the March school foundation statement for fiscal year 2008 and the amounts for the last three fiscal years are as follows:

	Actual Fiscal Year 2005	Actual Fiscal Year 2006	Actual Fiscal Year 2007	Forecasted Fiscal Year 2008	Variance
Formula Aid	\$21,098,000	\$18,627,000	\$15,490,000	\$13,367,000	(\$2,123,000)
Building Blocks	0	179,000	188,000	174,000	(14,000)
Formula Aid Guarantee	0	543,000	1,291,000	0	(1,291,000)
Basic Aid Guarantee	2,287,000	0	0	0	0
Transitional Aid Guarantee	0	4,608,000	7,686,000	13,051,000	5,365,000
Categorical Funding	1,982,000	2,029,000	2,131,000	1,820,000	(311,000)
Equity Aid	382,000	0	0	0	0
Parity Aid	3,699,000	3,479,000	2,979,000	2,746,000	(233,000)
Transportation	780,000	571,000	719,000	602,000	(117,000)
Foundation Adjustments	21,000	0	0	0	0
Totals	\$30,249,000	\$30,036,000	\$30,484,000	\$31,760,000	\$1,276,000

Formula aid is anticipated to decrease from the prior fiscal year because of a decrease in ADM of 400 and an increase in assessed valuation offset by an increase in per pupil funding. The add on building blocks was \$48 per pupil in fiscal year 2007 and \$49 per pupil in fiscal year 2008. The increase in transitional aid guarantee, which ensures that the School District will receive at least the same amount of base formula aid as the prior fiscal year, is due to a loss of 400 in ADM from the prior fiscal year. The formula aid guarantee was eliminated for fiscal year 2008. Categorical funding decreased due a decrease

East Cleveland City School District
Cuyahoga County
Summary of Significant Assumptions and Accounting Policies
For the Fiscal Year Ending June 30, 2008

special education and preschool units. Parity aid decreased due to changes in the formula and a decrease in the School District's ADM.

C. - Restricted Grants-in-Aid

Restricted grants-in-aid consist of the bus purchase allowance, career tech monies and Poverty Based Assistance/DPIA monies. For fiscal year 2008, the School District anticipates \$10,000 in bus purchase allowance monies, \$252,000 in career tech monies and \$3,707,000 in poverty based assistance which replaced the DPIA program. A \$2,190,000 decrease is anticipated from the prior year due to decreases in career tech monies and the elimination of the Poverty Based Assistance guarantee.

D. - Property Tax Allocation

State law grants tax relief in the form of a ten percent reduction in real property tax bills. In addition, a two and one-half percent rollback is granted on residential property taxes. Tax relief is also granted to qualified elderly and disabled homeowners based on their income. The State reimburses the School District for the loss of real property taxes as a result of the rollback and homestead tax relief programs. Beginning in tax year 2005, the State eliminated the ten percent rollback on commercial and industrial real property and the corresponding reimbursement to local governments. This change decreased property tax allocation and increased the collection of property taxes on commercial and industrial property.

The State exempts the first \$10,000 in general business personal property from taxation and reimburses the School District for the lost revenue. In 2004, the State began phasing out the reimbursement by 10 percent each year. Under House Bill 66, the phase-out period was accelerated. The last reimbursement will be in October 2008.

Beginning in tax year 2001, there were significant reductions in the valuation of certain types of public utility property. Two bills enacted by the 123rd General Assembly reduced the assessment rate for certain tangible personal property of electric utilities and all tangible personal property of gas utilities. To replace this money, new state consumption taxes have been enacted, a kilowatt-hour tax on electricity and a thousand cubic foot tax on natural gas. Money from these new taxes is used to reimburse school districts for the loss of public utility property tax revenue. Reimbursements are made twice a year in February and August and are identified as Utility Deregulation payments. For fiscal year 2008, the School District anticipates \$677,000 public utility reimbursements based on information provided by the Ohio Department of Taxation.

In fiscal year 2006, the State began reimbursing the School District for lost revenue due to the phase out of tangible personal property tax. In the first five years, the School District will be fully reimbursed relative to prior law for revenue lost due to the taxable value reductions prescribed by House Bill 66. Over the next seven years, beginning in fiscal year 2012, the reimbursements are gradually phased out. The reimbursement will be for the difference between the assessed values under prior law and the assessed values under House Bill 66. This means the School District is only reimbursed for the difference between the amounts that would have been received under the prior law and the amounts actually received as the phase-outs in House Bill 66 are implemented. For fiscal year 2008, the School District anticipates receiving \$653,000 of reimbursement for the tangible personal property tax phase out.

East Cleveland City School District
 Cuyahoga County
 Summary of Significant Assumptions and Accounting Policies
 For the Fiscal Year Ending June 30, 2008

Property tax allocation revenues consist of the following:

Revenue Sources	Actual Fiscal Year 2005	Actual Fiscal Year 2006	Actual Fiscal Year 2007	Forecasted Fiscal Year 2008	Variance
Homestead and Rollback	\$1,419,000	\$1,243,000	\$1,019,000	\$931,000	(\$88,000)
Utility Deregulation	613,000	678,000	677,000	677,000	0
Tangible Personal Property Loss Reimbursement	0	46,000	368,000	653,000	285,000
Totals	\$2,032,000	\$1,967,000	\$2,064,000	\$2,261,000	\$197,000

E. - All Other Revenues

All other revenues include tuition, interest on investments, classroom materials and fees, other receipts, and the refund of prior year expenditures.

Tuition and open enrollment is expected to increase from the prior fiscal year. The School District receives tuition from other school districts for their special education students who receive services from the East Cleveland City School District. The School District also receives open enrollment tuition from the resident school district for their students that attending East Cleveland City School District.

The School District pools cash from all funds for investment purposes. Investments are restricted by provisions of the Ohio Revised Code and are valued at cost. Following Ohio statutes, the Board of Education has, by resolution, specified the funds to receive an allocation of interest earnings with the greatest allocation being to the general fund. The increase in interest is due to the increase in the amount of money available to invest.

E-rate reimbursements are expected to decrease due to the School District's eligible reimbursement costs being lower in fiscal year 2008.

All other revenues consist of the following:

Revenue Sources	Actual Fiscal Year 2005	Actual Fiscal Year 2006	Actual Fiscal Year 2007	Forecast Fiscal Year 2008	Variance Increase (Decrease)
Tuition and Open Enrollment	\$1,921,000	\$1,720,000	\$2,124,000	\$3,039,000	\$915,000
Interest on Investments	105,000	425,000	1,141,000	1,391,000	250,000
Classroom Materials and Fees	4,000	6,000	5,000	5,000	0
CAFS	476,000	263,000	29,000	46,000	17,000
E-Rate	0	0	519,000	0	(519,000)
Other Miscellaneous	269,000	35,000	222,000	253,000	31,000
Refund of Prior Year Expenditures	353,000	369,000	119,000	200,000	81,000
Totals	\$3,128,000	\$2,818,000	\$4,159,000	\$4,934,000	\$775,000

F. - Other Financing Sources

Advances In – For fiscal year 2008, the School District is anticipating \$2,211,000 in advances being returned from other School District funds.

East Cleveland City School District
 Cuyahoga County
 Summary of Significant Assumptions and Accounting Policies
 For the Fiscal Year Ending June 30, 2008

Note 7 - Significant Assumptions for Expenditures and Other Financing Uses

A. - Personal Services

Personal services expenditures represent the salaries and wages paid to certified employees, classified and administrative staff, substitutes, tutors, student workers and board members. In addition to regular salaries, it includes payment for supplemental contracts, severance pay, and overtime pay. All employees receive their compensation on a bi-weekly basis. Administrative and non-bargaining unit salaries are set by the Board of Education. General Fund staffing levels for the last three fiscal years and as of March 2008 are as follows:

	Fiscal Year 2005	Fiscal Year 2006	Fiscal Year 2007	Fiscal Year 2008
Certified	322	262	256	247
Classified	176	106	100	102
Administrators	32	30	28	28
Total	530	398	384	377

Certified (teaching) staff salaries are based on a negotiated contract. The contract covers the period beginning July 1, 2006 through August 17, 2009, and allows for three percent increases in the base salary in fiscal years 2007, 2008 and 2009. Step increases range from 3.3 to 6 percent for the period covered. Certified salaries are forecasted to increase by \$735,000 due to the base and step increases.

The contract for classified staff covers the period beginning July 1, 2007 through June 30, 2010. The contract allows for three percent increases in the base salary as well as an average step increase of 3.64 percent in fiscal years 2008, 2009 and 2010. Classified salaries are forecasted to increase by \$172,000 due to the base and step increases.

Substitute salaries and supplemental contracts are expected to increase by \$38,000 and \$10,000 respectively, during the forecast period due to more substitutes needed for longer periods during fiscal year 2008 and an increase in supplemental costs due to the increase in the base salary.

Upon retirement, the School District offers its certified employees severance pay of 50 percent of their unused sick leave up to a maximum of 160 days paid, if notification of retirement is given to the School District by March 31. The severance pay is reduced to 25 percent if notification of retirement is received after March 31. Classified employees are entitled to severance pay of 35 percent of their unused sick leave, up to a maximum of 103 days paid. Severance pay for the current fiscal year includes only those employees eligible to retire who are below 55 years of age. Severance pay for employees eligible for retirement and age 55 and over is now paid into the Valic plan, which is classified as an employee benefit and addressed in the employee retirement/insurance benefits section of this report.

Other salaries and wages include mentor pay, optional day pays, class coverage pay, student workers and board compensation. The \$4,000 increase is primarily due to the School District employing more student workers in fiscal year 2008.

East Cleveland City School District
 Cuyahoga County
 Summary of Significant Assumptions and Accounting Policies
 For the Fiscal Year Ending June 30, 2008

Presented below is a comparison of salaries and wages for fiscal years 2005, 2006, 2007 and the forecast period.

	Actual Fiscal Year 2005	Actual Fiscal Year 2006	Actual Fiscal Year 2007	Forecast Fiscal Year 2008	Variance Increase (Decrease)
Certified Salaries	\$19,453,000	\$18,771,000	\$17,295,000	\$18,030,000	\$735,000
Classified Salaries	4,888,000	4,800,000	4,310,000	4,482,000	172,000
Substitute Salaries	844,000	627,000	586,000	624,000	38,000
Supplemental Contracts	197,000	199,000	234,000	244,000	10,000
Severance Pay	186,000	119,000	112,000	146,000	34,000
Other Salaries and Wages	96,000	177,000	201,000	205,000	4,000
Totals	\$25,664,000	\$24,693,000	\$22,738,000	\$23,731,000	\$993,000

B. – Employees’ Retirement/Insurance Benefits

Employees’ retirement and insurance benefits include employer contributions to the State pension systems, health care, medicare, workers’ compensation, and other benefits arising from the negotiated agreements.

Retirement costs are based on the employers’ contribution rate of 14 percent of salaries for STRS and SERS. Payments are made based upon estimated salary and wages for each fiscal year. Adjustments resulting from differences between the estimates and actuals are prorated over the next calendar year. The School District pays the retirement contributions for its superintendent and treasurer. The increase in employer retirement contributions is due to the increase in salaries that are forecast for fiscal year 2008 and the adjustment for the estimates from the prior calendar year.

Health care costs are based on rates recommended by and agreed to by the various insurance companies and the Board of Education. Over 50 percent of covered employees are in a preferred provider medical plan and the remaining employees are in a traditional medical plan. Health care costs are fixed for a twelve month period from October through September. Fiscal year 2008, the charges increased marginally on October 1, 2007. The decrease in health care costs is due to the School District’s employees paying an increased co-pay amount during fiscal year 2008. The following is a chart detailing the employee co-pays for fiscal year 2007 and fiscal year 2008:

Health Care Plan	Certified Fiscal Year 2007	Certified Fiscal Year 2008	Classified Fiscal Year 2007	Classified Fiscal Year 2008
Kaiser HMO				
Single	\$0	\$50	\$0	\$20
2 Person	0	70	0	30
Family	0	90	0	40
Anthem Blue				
Single	152	120	30	40
2 Person	304	240	61	60
Family	355	330	71	80

East Cleveland City School District
 Cuyahoga County
 Summary of Significant Assumptions and Accounting Policies
 For the Fiscal Year Ending June 30, 2008

The gross monthly charges per person for health care benefits are as follows:

Coverage:	Effective October 1, 2005	Effective October 1, 2006	Effective October 1, 2007
Family	\$873.76	\$1,068.18	\$1,093.86
Couple	582.51	712.11	719.23
Single	291.25	356.06	344.62

Life insurance premiums are based on the coverage amount and the anticipated number of employees participating in the program.

Workers' compensation is based on the School District's assigned rate and the amount of wages paid in a calendar year. Premiums are paid in the following calendar year. The School District may choose to pay the entire premium in May or 45 percent in May and 55 percent in September. The School District anticipates paying the entire premium in May as in prior years. The premium for calendar year 2007, due in May 2008, increased from \$1.83 per hundred dollars of payroll to \$2.10 per hundred dollars of payroll.

The School District's unemployment benefits are paid through the Rickwel Corporation, which is classified as a purchased service and is addressed in the following section of this report.

Presented below is a comparison of fiscal years 2005, 2006, 2007 and the forecast period:

	Actual Fiscal Year 2005	Actual Fiscal Year 2006	Actual Fiscal Year 2007	Forecast Fiscal Year 2008	Variance Increase (Decrease)
Employer's Retirement	\$3,519,000	\$3,247,000	\$3,717,000	\$3,906,000	\$189,000
Health Care/Life Insurance	2,751,000	2,573,000	3,353,000	3,134,000	(219,000)
Workers' Compensation	424,000	420,000	451,000	486,000	35,000
Medicare	198,000	185,000	182,000	205,000	23,000
Unemployment	227,000	11,000	0	0	0
Severance Pay/Valic Plan	423,000	463,000	307,000	535,000	228,000
Totals	<u>\$7,542,000</u>	<u>\$6,899,000</u>	<u>\$8,010,000</u>	<u>\$8,266,000</u>	<u>\$256,000</u>

C. - Purchased Services

Presented below are the purchased services expenditures for the last three fiscal years and the forecast period:

East Cleveland City School District
 Cuyahoga County
 Summary of Significant Assumptions and Accounting Policies
 For the Fiscal Year Ending June 30, 2008

	Actual Fiscal Year 2005	Actual Fiscal Year 2006	Actual Fiscal Year 2007	Forecast Fiscal Year 2008	Variance Increase (Decrease)
Professional and Technical Services	\$1,473,000	\$1,782,000	\$1,419,000	\$1,356,000	(\$63,000)
Property Services	687,000	917,000	864,000	1,454,000	590,000
Travel and Meeting Expenses	23,000	21,000	25,000	45,000	20,000
Communication Cost	7,000	189,000	411,000	433,000	22,000
Utility Services	1,057,000	1,069,000	970,000	977,000	7,000
Trade Services	20,000	17,000	11,000	35,000	24,000
Tuition Payments	6,225,000	6,555,000	7,607,000	7,865,000	258,000
Pupil Transportation	332,000	351,000	361,000	479,000	118,000
Other Purchased Services	278,000	13,000	272,000	298,000	26,000
Totals	\$10,102,000	\$10,914,000	\$11,940,000	\$12,942,000	\$1,002,000

Professional and technical services are forecasted to decrease due to the School District monitoring expenditures. Property services will increase primarily due to the School District increasing security within the School District's buildings. Tuition payments are increasing due to East Cleveland School District students attending community schools. Pupil transportation costs are forecasted to increase due to increased costs of transporting the School District's special education students. Other purchased services will increase due to students taking more field trips during the current fiscal year.

D. - Supplies and Materials

Presented below are the supplies and materials expenditures for the past three fiscal years and the forecast period:

	Actual Fiscal Year 2005	Actual Fiscal Year 2006	Actual Fiscal Year 2007	Forecast Fiscal Year 2008	Variance Increase (Decrease)
General Supplies, Library Books and Periodicals	\$422,000	\$421,000	\$402,000	\$376,000	(\$26,000)
Operations, Maintenance and Repair	204,000	246,000	233,000	449,000	216,000
Textbooks	156,000	219,000	526,000	845,000	319,000
Totals	\$782,000	\$886,000	\$1,161,000	\$1,670,000	\$509,000

General supplies, library books and periodicals are forecasted to decrease slightly due to the School District maintaining current supply levels rather than replenishing depleted supply levels. Operations, maintenance and repair are anticipated to increase due to the cost of diesel fuel and necessary repairs required on existing school buildings. The increase in textbooks is due to the School District's purchase of textbooks and the replacement of out-dated textbooks that was delayed because of the financial condition of the School District.

E. - Capital Outlay

The costs of property, plant and equipment acquired or constructed for general services are recorded as expenditures. The increase of \$875,000 for fiscal year 2008 is due to the School District's plan to purchase new equipment and make much needed upgrades to the existing equipment in fiscal year 2008. Planned equipment purchases include computers, office equipment, power equipment and the purchase of a bus. The School District also has planned on the demolition of the Rozelle elementary school building which is anticipated to be paid from the capital outlay classification in the general fund.

East Cleveland City School District
Cuyahoga County
Summary of Significant Assumptions and Accounting Policies
For the Fiscal Year Ending June 30, 2008

F. – Debt Service

The School District made the last payment on the Solvency Assistance Advance during fiscal year 2005. The School District does not have any general fund supported debt outstanding.

G. - Other Objects

Other object expenditures consist of dues and fees, insurance and awards. An increase of \$18,000 is forecast due to increases in memberships and auditor and treasurer fees.

H. - Operating Transfers and Advances Out

Transfers out are anticipated during fiscal year 2008 to the athletics and student activities funds in the amounts of \$70,000 and \$25,000 respectively, for operating costs. The general fund is anticipating advances out in fiscal year 2008 in the amount of \$2,275,000 due to the timing of the receipt of grant monies to the various funds. The general fund provides temporary funding of the program until the grant dollars are received.

Note 8 - Encumbrances

Encumbrances represent purchase authorizations and contracts for goods or services that are pending vendor performance and those purchase commitments which have been performed, invoiced, and are awaiting payment. Encumbrances on a budget basis of accounting are treated as the equivalent of an expenditure at the time authorization is made in order to maintain compliance with spending restrictions established by Ohio law. For presentation in the forecast, outstanding encumbrances are presented as a reduction of the general fund cash balance.

Encumbrances for purchased services, supplies and materials, capital outlay and other objects as of June 30, 2007 were \$2,167,000 and are forecasted at \$2,200,000 for June 30, 2008.

Note 9 - Reservations of Fund Balance

The School District is required by State statute to annually set aside in the general fund three percent of certain revenues for the purchase of textbooks and other instructional materials and an equal amount for the acquisition and construction of capital improvements. Amounts not spent by year-end or offset by similarly restricted resources received during the year must be held in cash at year-end and carried forward to be used for the same purposes in future years.

A. - Textbooks and Instructional Materials Set-Aside

The set aside amount for fiscal year 2008 is \$616,000. The School District anticipates \$1,380,000 in qualifying expenditures during the current fiscal year. Therefore, no reserve for textbooks and instructional materials is forecasted.

B. - Capital and Maintenance Set-Aside

The set aside amount for fiscal year 2008 is \$616,000. The School District anticipates \$855,000 in qualifying expenditures during the current fiscal year. Therefore, no reserve amount is forecasted for capital acquisition and improvements.

East Cleveland City School District
 Cuyahoga County
 Summary of Significant Assumptions and Accounting Policies
 For the Fiscal Year Ending June 30, 2008

C. – Bus Purchases

The School District anticipates receiving a \$10,000 bus purchase allowance during fiscal year 2008. The School District anticipates purchasing a new bus at a cost of approximately \$65,000 in fiscal year 2008. Therefore, no reserve amount is forecasted for bus purchases.

D. – Poverty Based Assistance/Disadvantaged Pupil Impact Aid (DPIA)

At June 30, 2007, the School District had \$306,000 in unspent Poverty Based Assistance monies. The School District anticipates receiving \$3,707,000 in restricted Poverty Based Assistance monies during fiscal year 2008. The School District anticipates spending \$4,013,000 of the Poverty Based Assistance funding during the current fiscal year. Therefore, no reserve amount is forecasted for Poverty Based Assistance.

Note 10 - Levies

In the past ten years, the School District has placed two levies on the ballot. The type of levy, millage amount, term and election results are as follows:

<u>Date</u>	<u>Type</u>	<u>Amount</u>	<u>Term</u>	<u>Election Results</u>
November 1997	School Facilities Improvements	\$10,559,716	23 Years	Passed
November 1997	School Facilities Maintenance	.5 mills	23 Years	Passed

Note 11 – Pending Litigation

The School District’s management is of the opinion that there are no issues that would have a material effect on the financial forecast.

Note 12 – Financial Planning and Supervision Commission

On April 3, 2003, the School District was declared to be in a state of “Fiscal Emergency” by the Auditor of State. Legislation effective September 1996, permitted this declaration due to the School District’s declining financial condition. In accordance with the law, a five-member Financial Planning and Supervision Commission has been established to oversee the financial affairs of the School District. The Commission is comprised of the State Superintendent of Public Instruction and the State Director of Budget and Management or their designees, and three appointed members. The appointments are made by the Governor of the State of Ohio, the State Superintendent of Public Instruction and the Mayor of the City of East Cleveland. The Commission’s primary charge is to develop, adopt and implement a financial recovery plan. Once the plan has been adopted, the Board of Education’s discretion is limited in that all financial activity of the School District must in accordance with the plan.

The financial recovery plan was adopted on May 22, 2007 and under State law is to be updated annually. The recovery plan included the reduction of 7 full time employees from the general fund for fiscal year 2008. In addition, the plan included reductions in hours worked, reassignment of duties, termination of a lease agreement and savings related to the closing of schools. The financial impact for fiscal year 2008 is expected to be approximately \$1,237,000. The recovery plan does not address periods beyond fiscal year 2008.

East Cleveland City School District
Cuyahoga County
Summary of Significant Assumptions and Accounting Policies
For the Fiscal Year Ending June 30, 2008

Note 13 - Information Related to Periods Beyond the Forecast Period

Management is required to annually prepare and file a five-year financial plan with the Ohio Department of Education. Management has not revised and filed a financial plan with the Ohio Department of Education that takes into account current conditions and the financial recovery plan adopted by the Financial Planning and Supervision Commission.



Mary Taylor, CPA
Auditor of State

EAST CLEVELAND CITY SCHOOL DISTRICT

CUYAHOGA COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
MAY 14, 2008**