



**Mary Taylor, CPA**  
Auditor of State

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

**Financial Forecast  
For the Fiscal Year Ending June 30, 2009**

**Local Government Services Section**

**East Cleveland City School District  
Cuyahoga County**

**Financial Forecast**

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Financial Planning and Supervision Commission  
of the East Cleveland City School District  
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 February 23, 2009. 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, 2009 of \$26,639,000.

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 2010 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 2009.

MARY TAYLOR, CPA  
Auditor of State

Handwritten signature of Peter R. Sorem in black ink.

Peter R. Sorem  
Chief of Local Government Services

March 18, 2009

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# 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, 2009. 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, 2006, 2007 and 2008 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.

A handwritten signature in cursive script that reads "Mary Taylor".

Mary Taylor, CPA  
Auditor of State

February 23, 2009

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**East Cleveland City School District**  
Cuyahoga County  
Statement of Revenues, Expenditures and Changes in Fund Balance  
For the Fiscal Years Ended June 30, 2006 Through 2008 Actual;  
For the Fiscal Year Ending June 30, 2009 Forecasted  
General Fund

	Fiscal Year 2006 Actual	Fiscal Year 2007 Actual	Fiscal Year 2008 Actual	Fiscal Year 2009 Forecasted
<b>Revenues</b>				
General Property Tax	\$9,493,000	\$9,010,000	\$8,228,000	\$8,389,000
Tangible Personal Property Tax	1,613,000	1,528,000	1,180,000	1,002,000
Unrestricted Grants-in-Aid	30,036,000	30,484,000	32,188,000	31,348,000
Restricted Grants-in-Aid	6,234,000	6,159,000	4,404,000	4,460,000
Property Tax Allocation	2,000,000	2,094,000	2,178,000	1,997,000
All Other Revenues	2,818,000	4,159,000	4,765,000	5,409,000
<i>Total Revenues</i>	<u>52,194,000</u>	<u>53,434,000</u>	<u>52,943,000</u>	<u>52,605,000</u>
<b>Other Financing Sources</b>				
Advances In	2,051,000	3,432,000	2,983,000	6,007,000
Operating Transfers In	0	10,000	0	0
<i>Total Other Financing Sources</i>	<u>2,051,000</u>	<u>3,442,000</u>	<u>2,983,000</u>	<u>6,007,000</u>
<i>Total Revenues and Other Financing Sources</i>	<u>54,245,000</u>	<u>56,876,000</u>	<u>55,926,000</u>	<u>58,612,000</u>
<b>Expenditures</b>				
Personal Services	24,693,000	22,738,000	23,063,000	23,331,000
Employees' Retirement/Insurance Benefits	6,899,000	8,010,000	8,619,000	9,246,000
Purchased Services	10,914,000	11,940,000	12,055,000	15,382,000
Supplies and Materials	886,000	1,161,000	1,509,000	2,253,000
Capital Outlay	45,000	92,000	726,000	1,183,000
Other Objects	365,000	412,000	227,000	492,000
<i>Total Expenditures</i>	<u>43,802,000</u>	<u>44,353,000</u>	<u>46,199,000</u>	<u>51,887,000</u>
<b>Other Financing Uses</b>				
Operating Transfers Out	740,000	208,000	235,000	70,000
Advances Out	2,033,000	2,211,000	6,132,000	3,000,000
<i>Total Other Financing Uses</i>	<u>2,773,000</u>	<u>2,419,000</u>	<u>6,367,000</u>	<u>3,070,000</u>
<i>Total Expenditures and Other Financing Uses</i>	<u>46,575,000</u>	<u>46,772,000</u>	<u>52,566,000</u>	<u>54,957,000</u>
<i>Excess of Revenues and Other Financing Sources Over (Under) Expenditures and Other Financing Uses</i>	7,670,000	10,104,000	3,360,000	3,655,000
Cash Balance July 1	4,050,000	11,720,000	21,824,000	25,184,000
Cash Balance June 30	11,720,000	21,824,000	25,184,000	28,839,000
<b>Encumbrances and Reserves:</b>				
Actual/Estimated Encumbrances June 30	2,244,000	2,167,000	1,681,000	2,200,000
Reservations of Fund Balance for:				
Textbooks	123,000	0	0	0
DPIA/Poverty Based Assistance	416,000	306,000	0	0
Total Encumbrances and Reserves of Fund Balance	<u>2,783,000</u>	<u>2,473,000</u>	<u>1,681,000</u>	<u>2,200,000</u>
Unencumbered/Unreserved Fund Balance June 30	<u>\$8,937,000</u>	<u>\$19,351,000</u>	<u>\$23,503,000</u>	<u>\$26,639,000</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, 2009

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**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 seven instructional buildings. The School District is staffed by 159 non-certified, 296 certificated personnel who provide services to 3,466 students and other community members.

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.

**Note 2 - Nature of the Forecast**

This financial forecast presents, to the best of the East Cleveland City School District Board of Education and Financial Planning and Supervision Commission'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 January 20, 2009, 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 in the poverty based assistance fund to demonstrate compliance. For presentation in the forecast, the poverty based assistance fund is 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

**East Cleveland City School District**  
Cuyahoga County  
Summary of Significant Assumptions and Accounting Policies  
For the Fiscal Year Ending June 30, 2009

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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.

**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 restraints 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.

**East Cleveland City School District**  
Cuyahoga County  
Summary of Significant Assumptions and Accounting Policies  
For the Fiscal Year Ending June 30, 2009

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**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.

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, manufactured homes and tangible personal property used in businesses 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



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 Cuyahoga County  
 Summary of Significant Assumptions and Accounting Policies  
 For the Fiscal Year Ending June 30, 2009

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 2008 (the collection year) for real and public utility property taxes represents collections of 2007 taxes (the tax year). Property tax payments received during calendar year 2008 for tangible personal property (other than public utility property) are for calendar year 2008 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.

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 2010 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 2009.

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.

**East Cleveland City School District**  
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For the Fiscal Year Ending June 30, 2009

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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 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 \$27.08 per \$1,000 of assessed valuation for collection year 2008, and the effective commercial and industrial real property tax rate is \$50.05 per \$1,000 of assessed valuation for collection year 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 an increase of \$161,000 from the prior fiscal year due to an increase in the collection of delinquent property taxes.

Tangible Personal Property Tax – Tangible personal property tax is levied on machinery and equipment, furniture and fixtures, and inventory of businesses. Effective for tax year 2006, the 23 percent assessment rate on business inventory was to be reduced by two percent if the total statewide collections of 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 phased 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 are not 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 2008 and the estimated June 2009 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 2009 does not reflect this change. In fiscal year 2009, the phase out of the tangible personal property tax revenues is offset by the delinquent

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 For the Fiscal Year Ending June 30, 2009

tax payments from Time Warner Cable Company and Ohio Bell Telephone Company in the October 2008 settlement. Although these payments decreased, the School District is still showing larger tangible personal property revenues than expected with the phasing out of this tax.

**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 by one-third each year 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 fiscal year 2005. The per pupil amount for fiscal years 2008 and 2009 was increased by three percent. Beginning in fiscal year 2008, the per pupil amount is increased by four base supplements called "building blocks". The building blocks are funding for intervention, professional development, data based decision making and professional development for data based decision making. The per pupil amount for fiscal years 2006 to 2009 is as follows:

<u>Fiscal Year</u>	<u>Per Pupil Foundation Level</u>	<u>Building Blocks</u>	<u>Total</u>
2006	\$5,283	\$0	\$5,283
2007	5,403	0	5,403
2008	5,565	49	5,614
2009	5,732	51	5,783

The anticipated unrestricted grants-in-aid for fiscal year 2009 is based on current estimates available from the Ohio Department of Education. The most recent estimates reported on the January school foundation statement for fiscal year 2009 and the amounts for the last three fiscal years are as follows:

	<u>Actual Fiscal Year 2006</u>	<u>Actual Fiscal Year 2007</u>	<u>Actual Fiscal Year 2008</u>	<u>Forecasted Fiscal Year 2009</u>	<u>Variance</u>
Formula Aid	\$18,627,000	\$15,490,000	\$13,413,000	\$12,873,000	(\$540,000)
Building Blocks	179,000	188,000	174,000	171,000	(3,000)
Formula Aid Guarantee	543,000	1,291,000	0	0	0
Transitional Aid Guarantee	4,608,000	7,686,000	12,978,000	13,368,000	390,000
Categorical Funding	2,029,000	2,131,000	1,831,000	1,936,000	105,000
Parity Aid	3,479,000	2,979,000	2,748,000	2,828,000	80,000
Transportation	571,000	719,000	591,000	595,000	4,000
Foundation Adjustments	0	0	453,000	(423,000)	(876,000)
<b>Totals</b>	<u>\$30,036,000</u>	<u>\$30,484,000</u>	<u>\$32,188,000</u>	<u>\$31,348,000</u>	<u>(\$840,000)</u>

Formula aid is anticipated to decrease from the prior fiscal year because of a decrease in ADM of 184 offset by an increase in per pupil funding. The increase in transitional aid guarantee, which ensures that

**East Cleveland City School District**  
Cuyahoga County  
Summary of Significant Assumptions and Accounting Policies  
For the Fiscal Year Ending June 30, 2009

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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 184 in ADM from the prior fiscal year. The formula aid guarantee was eliminated for fiscal year 2008. Categorical funding increased due an increase in special education and preschool units.

The parity aid funding program is given to school districts that fall below the “per pupil wealth threshold” or below the 80<sup>th</sup> percentile school district on the wealth measure as ranked by the Ohio Department of Education.

Foundation adjustments represents the difference between the final settlement and a recalculation of the prior year’s foundation settlement which takes into account corrections for ADM, open enrollment, community school adjustments and other items.

**C. - Restricted Grants-in-Aid**

Restricted grants-in-aid consist of the bus purchase allowance, career tech monies, catastrophic aid for special education students and Poverty Based Assistance/DPIA monies. For fiscal year 2009, the School District anticipates \$20,000 in bus purchase allowance monies, \$240,000 in career tech monies, \$500,000 in catastrophic aid for special education students and \$3,700,000 in poverty based assistance which replaced the DPIA program. A \$56,000 increase is anticipated from the prior year due to an increase in career tech monies.

**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 homeowners where the first \$25,000 in true value of the property is not taxed. The State reimburses the School District for the loss of real property taxes as a result of the rollback and homestead tax relief programs.

The State used to exempt the first \$10,000 in general business personal property from taxation and reimburse the School District for the lost revenue. Beginning in tax year 2004, the State began phasing out the reimbursement by 10 percent each year. Under HB 66, the phase-out period was accelerated. The last reimbursement for this exemption was 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 123<sup>rd</sup> 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 2009, the School District does not anticipate any 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

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 For the Fiscal Year Ending June 30, 2009

received as the phase-outs in House Bill 66 are implemented. For fiscal year 2009, the School District anticipates receiving \$960,000 of reimbursement for the tangible personal property tax phase out.

Property tax allocation revenues consist of the following:

<u>Revenue Sources</u>	<u>Actual Fiscal Year 2006</u>	<u>Actual Fiscal Year 2007</u>	<u>Actual Fiscal Year 2008</u>	<u>Forecasted Fiscal Year 2009</u>	<u>Variance</u>
Homestead and Rollback	\$1,243,000	\$1,019,000	\$1,163,000	\$1,013,000	(\$150,000)
Tangible Personal					
Property Exemption	33,000	30,000	24,000	24,000	0
Utility Deregulation	678,000	677,000	338,000	0	(338,000)
Tangible Personal Property					
Loss Reimbursement	46,000	368,000	653,000	960,000	307,000
<b>Totals</b>	<u><u>\$2,000,000</u></u>	<u><u>\$2,094,000</u></u>	<u><u>\$2,178,000</u></u>	<u><u>\$1,997,000</u></u>	<u><u>(\$181,000)</u></u>

**E. - All Other Revenues**

All other revenues include tuition and open enrollment, interest on investments, classroom materials and fees, Community Alternative Funding Source (CAFS) and Reserve Officer Training Corps (ROTC), E-rate reimbursements, 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 attend East Cleveland City School District.

The School District pools cash from all funds for investment purposes. 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 decrease in interest is due to declining interest rates.

The CAFS program ended June 30, 2005 with the final distribution in fiscal year 2006. During an audit of the CAFS program, it was determined that the School District was to receive an additional \$21,000 in reimbursements for prior fiscal years. This reimbursement was received by the School District in fiscal year 2008. The School district does not expect to receive any reimbursement during the forecasted period.

The ROTC program is a federally funded program established to train students interested in joining the military after they finish school. The School District forecasts this to remain consistent with the prior year.

Other miscellaneous revenues include rentals, contributions and donations. The increase of \$191,000 is mainly due to a contribution to the School District from the Cuyahoga County Commissioners. This donation was to help families who could not afford to purchase school uniforms for their children.

Refund of prior year expenditures for the forecast year include refunds due to the School District from the overpayment of excess costs. Excess costs represent the additional costs of educating East Cleveland City School District's special education students attending other school districts.

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All other revenues consist of the following:

Revenue Sources	Actual Fiscal Year 2006	Actual Fiscal Year 2007	Actual Fiscal Year 2008	Forecast Fiscal Year 2009	Variance Increase (Decrease)
Tuition and Open Enrollment	\$1,720,000	\$2,124,000	\$3,055,000	\$3,916,000	\$861,000
Interest on Investments	425,000	1,141,000	1,164,000	765,000	(399,000)
Classroom Materials and Fees	6,000	5,000	8,000	8,000	0
CAFS/ROTC	263,000	29,000	51,000	30,000	(21,000)
E-Rate	0	519,000	0	0	0
Other Miscellaneous	35,000	222,000	349,000	540,000	191,000
Refund of Prior Year Expenditures	369,000	119,000	138,000	150,000	12,000
<b>Totals</b>	<b>\$2,818,000</b>	<b>\$4,159,000</b>	<b>\$4,765,000</b>	<b>\$5,409,000</b>	<b>\$644,000</b>

**F. - Other Financing Sources**

**Transfers and Advances In** – The School District anticipates receiving advances in of \$6,007,000 during the forecast period. During fiscal year 2008, the general fund advanced money to various grant funds in order to prevent the grant funds from ending the year with a deficit balance. Those advances are expected to be repaid during fiscal year 2009. The School District does not anticipate receiving any transfers in during the forecast period.

**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. Salaries for employees represented by a bargaining unit are set in the negotiated agreements. Salaries for administrative employees and employees not represented by a bargaining unit are set by the Board of Education. Staffing levels for the last fiscal year and the forecasted fiscal year are displayed in the chart below. The numbers represent full time equivalents.

	2007	2008	2009
General Fund:			
Certified	276	267	259
Classified	108	107	106
<b>Total General Fund</b>	<b>384</b>	<b>374</b>	<b>365</b>
Other Funds:			
Certified	20	20	9
Classified	12	12	19
<b>Total Other Funds</b>	<b>32</b>	<b>32</b>	<b>28</b>
<b>Totals</b>	<b>416</b>	<b>406</b>	<b>393</b>

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The negotiated contract for certified (teaching) staff covers the period beginning July 1, 2006 and ending August 17, 2009, and allows for three percent increases in the base salary in fiscal years 2007, 2008 and 2009. Step increases are dependent upon the number of years of service and the negotiated contract and range from 3.3 to 6 percent for the period covered. Certified salaries are forecasted to decrease by \$88,000 due to a reduction of 9 staff positions and the replacement of 21 higher paid staff with new employees that are paid a lower salary, offset by base and step increases.

The contract for classified staff covers the period July 1, 2007 through June 30, 2010. The contract provides 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 \$285,000 due to the base and step increases.

Substitute salaries are expected to increase by \$130,000 during the forecast period due to more substitutes needed during fiscal year 2009 due to illness and pregnancies. Supplementary contracts are expected to decrease by \$29,000 during the forecast period due to a decrease in supplemental costs being paid out of the general fund.

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 who are below 55 years of age. Severance pay for employees 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. Other salaries and wages are expected to be the same as fiscal year 2008 due to the School District expecting to employ the same number of students as last year.

Presented below is a comparison of the past three fiscal years and the forecast period.

	Actual Fiscal Year 2006	Actual Fiscal Year 2007	Actual Fiscal Year 2008	Forecast Fiscal Year 2009	Variance Increase (Decrease)
Certified Salaries	\$18,771,000	\$17,295,000	\$17,542,000	\$17,454,000	(\$88,000)
Classified Salaries	4,800,000	4,310,000	4,280,000	4,565,000	285,000
Substitute Salaries	627,000	586,000	638,000	768,000	130,000
Supplemental Contracts	199,000	234,000	230,000	201,000	(29,000)
Severance Pay	119,000	112,000	116,000	86,000	(30,000)
Other Salaries and Wages	177,000	201,000	257,000	257,000	0
<b>Totals</b>	<b>\$24,693,000</b>	<b>\$22,738,000</b>	<b>\$23,063,000</b>	<b>\$23,331,000</b>	<b>\$268,000</b>

**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.

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Retirement costs are based on the employers' contribution rate of 14 percent of salaries for STRS and SERS and an additional SERS surcharge levied to fund health care benefits for employees earning less than a minimum salary amount. Payments are made based upon estimated salaries 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 employee's portion of the retirement contribution for its superintendent and treasurer. The decrease in employer retirement contributions is due to decreases in staffing levels for fiscal year 2009 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. The following is a chart detailing the employee co-pays, which stayed the same for fiscal year 2008 and fiscal year 2009:

Health Care Plan	Certified	Classified
<b>Kaiser HMO</b>		
Single	\$50	\$20
Two Person	70	30
Family	90	40
<b>Anthem Blue</b>		
Single	120	40
Two Person	240	60
Family	330	80

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

Coverage:	Effective October 1, 2006	Effective October 1, 2007	Effective October 1, 2008
Family	\$1,068.18	\$1,093.86	\$1,227.51
Couple	712.11	719.23	808.34
Single	356.06	344.62	389.17

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 2008, due in May 2009, increased from \$1.69 per hundred dollars of payroll to \$3.79 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.

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



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leave, up to a maximum of 103 days paid. Severance pay included in the salaries section of this forecast 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 is now paid into the Valic plan. The Valic plan is classified as an employee benefit.

Presented below is a comparison of the past three fiscal years and the forecast period:

	Actual Fiscal Year 2006	Actual Fiscal Year 2007	Actual Fiscal Year 2008	Forecast Fiscal Year 2009	Variance Increase (Decrease)
Employer's Retirement	\$3,247,000	\$3,717,000	\$3,823,000	\$3,395,000	(\$428,000)
Health Care/Life Insurance	2,573,000	3,353,000	3,504,000	4,301,000	797,000
Workers' Compensation	420,000	451,000	449,000	879,000	430,000
Medicare	185,000	182,000	204,000	201,000	(3,000)
Unemployment	11,000	0	0	0	0
Severance Pay/Valic Plan	463,000	307,000	639,000	470,000	(169,000)
Totals	<u>\$6,899,000</u>	<u>\$8,010,000</u>	<u>\$8,619,000</u>	<u>\$9,246,000</u>	<u>\$627,000</u>

**C. - Purchased Services**

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

	Actual Fiscal Year 2006	Actual Fiscal Year 2007	Actual Fiscal Year 2008	Forecast Fiscal Year 2009	Variance Increase (Decrease)
Professional and Technical Services	\$1,782,000	\$1,419,000	\$1,457,000	\$2,711,000	\$1,254,000
Property Services	917,000	864,000	862,000	1,069,000	207,000
Travel and Meeting Expenses	21,000	25,000	49,000	65,000	16,000
Communication Cost	189,000	411,000	380,000	536,000	156,000
Utility Services	1,069,000	970,000	1,047,000	1,541,000	494,000
Trade Services	17,000	11,000	9,000	21,000	12,000
Tuition Payments	6,555,000	7,607,000	7,726,000	8,252,000	526,000
Pupil Transportation	351,000	361,000	475,000	875,000	400,000
Other Purchased Services	13,000	272,000	50,000	312,000	262,000
Totals	<u>\$10,914,000</u>	<u>\$11,940,000</u>	<u>\$12,055,000</u>	<u>\$15,382,000</u>	<u>\$3,327,000</u>

Professional and technical services are forecasted to increase mainly due to increased legal services for property purchases and workers' compensation claims. Property services will increase primarily due to the School District increasing security within the School District's buildings. Utility services are increasing due to higher gas and electric rates and increased consumption. 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.

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**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 2006	Actual Fiscal Year 2007	Actual Fiscal Year 2008	Forecast Fiscal Year 2009	Variance Increase (Decrease)
General Supplies, Library Books and Periodicals	\$421,000	\$402,000	\$427,000	\$882,000	\$455,000
Operations, Maintenance and Repair	246,000	233,000	360,000	281,000	(79,000)
Textbooks	219,000	526,000	722,000	1,090,000	368,000
<b>Totals</b>	<b>\$886,000</b>	<b>\$1,161,000</b>	<b>\$1,509,000</b>	<b>\$2,253,000</b>	<b>\$744,000</b>

General supplies, library books and periodicals are forecasted to increase due to the School District increasing purchases to replenish depleted supply levels. Operations, maintenance and repairs are anticipated to decrease slightly due to a decrease in the cost of diesel fuel. The increase in textbooks is due to the School District's purchases that were delayed because of the financial condition of the School District in prior years.

**E. - Capital Outlay**

The costs of property, plant and equipment acquired or constructed for general services are recorded as expenditures. The increase of \$457,000 for fiscal year 2009 is due to the School District's plan to purchase new equipment and make much needed upgrades to the existing equipment in fiscal year 2009. 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.

**F. - Other Objects**

Other object expenditures consist of dues and fees, insurance and awards. An increase of \$265,000 is forecast due to an increase in auditor and treasurer fees.

**G. - Operating Transfers and Advances Out**

Transfers out are anticipated during fiscal year 2009 to the athletics fund in the amount of \$70,000 for operating costs. The general fund is anticipating advances out in fiscal year 2009 in the amount of \$3,000,000 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.

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Encumbrances for purchased services, supplies and materials, capital outlay and other objects as of June 30, 2008 were \$1,681,000 and are forecasted at \$2,200,000 for June 30, 2009.

**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 2009 is \$584,000. The School District anticipates \$1,138,000 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 2009 is \$584,000. The School District anticipates \$1,117,000 in qualifying expenditures during the current fiscal year. Therefore, no reserve amount is forecasted for capital acquisition and improvements.

**C. - Bus Purchases**

The School District anticipates receiving a \$20,000 bus purchase allowance during fiscal year 2009. The School District anticipates purchasing a new bus at a cost of approximately \$65,000 in fiscal year 2009. Therefore, no reserve amount is forecasted for bus purchases.

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

At June 30, 2008, the School District had spent all Poverty Based Assistance monies. The School District anticipates receiving \$3,700,000 in restricted Poverty Based Assistance monies during fiscal year 2009. The School District anticipates spending \$3,700,000 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 not placed any levies on the ballot.

**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.

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**Note 12 - 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. The last financial plan was for the fiscal years 2009 through 2013. Management believes that the following information, although it does not constitute a financial forecast, is necessary in order for users to make a meaningful analysis of the forecast results. The plan assumed the continued operation of the School District with slight decreases in revenues. The plan also assumes a decrease in the number of employees offset by step increases in pay which causes slight increases in salaries as well as benefits for fiscal years 2008 through 2013. The operating surplus decreases to \$17,455,000 for fiscal year 2013.

The information presented in this note is less reliable than the information presented in the financial forecast, and accordingly, is presented for analysis purposes only. Furthermore, there can be no assurance that events and circumstances described in this note will occur.

The Financial Planning and Supervision 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 amended on May 22, 2007. 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 recovery plan does not address periods beyond fiscal year 2008.



**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  
MARCH 18, 2009**