



Mary Taylor, CPA
Auditor of State

**EAST CLEVELAND CITY SCHOOL DISTRICT
CUYAHOGA COUNTY**

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Mary Taylor, CPA

Auditor of State

INDEPENDENT ACCOUNTANTS' REPORT

Board of Education
East Cleveland City School District
Cuyahoga County
14305 Shaw Avenue Modular
East Cleveland, Ohio 44112-2707

We have audited the accompanying financial statements of the governmental activities, business type activities, each major fund, and the aggregate remaining fund information of the East Cleveland City School District, Cuyahoga County, Ohio, (the District) as of and for the year ended June 30, 2006, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the District's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the Comptroller General of the United States' *Government Auditing Standards*. Those standards require that we plan and perform the audit to reasonably assure whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe our audit provides a reasonable basis for our opinions.

Ohio Administrative Code § 117-2-03(B) requires the District to prepare its annual financial report in accordance with accounting principles generally accepted in the United States of America. However, as discussed in Note 2, the District prepared its financial statements and notes following the cash accounting basis. This is a comprehensive accounting basis other than generally accepted accounting principles. The accompanying financial statements and notes omit assets, liabilities, fund equities, and disclosures that, while material, we cannot determine at this time.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective cash financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the East Cleveland City School District, Cuyahoga County, Ohio, as of June 30, 2006, and the respective changes in cash financial position and the budgetary comparison for the General Fund thereof for the year then ended in conformity with the basis of accounting Note 2 describes.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 16, 2010 on our consideration of the District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, and other matters. While we did not opine on the internal control over financial reporting or on compliance, that report describes the scope of our testing of internal control over financial reporting and compliance and the results of that testing. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*. You should read it in conjunction with this report in assessing the results of our audit.

Management's Discussion and Analysis is not a required part of the basic financial statements but is supplementary information accounting principles generally accepted in the United States of America require. We have applied certain limited procedures, consisting principally of inquiries of management regarding the methods of measuring and presenting the required supplementary information. However, we did not audit the information and express no opinion on it.

We conducted our audit to opine on the financial statements that collectively comprise the District's basic financial statements. The federal awards receipts and expenditures schedule is required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is also not a required part of the basic financial statements. We subjected the federal awards receipts and expenditures schedule to the auditing procedures applied in the audit of the basic financial statements. In our opinion, this information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

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

Mary Taylor, CPA
Auditor of State

November 16, 2010

**East Cleveland City School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2006
Unaudited**

Our discussion and analysis of the East Cleveland City School District's (the "District") financial performance provides an overview of the District's financial activities for the fiscal year ended June 30, 2006. The intent of this discussion and analysis is to look at the District's financial performance as a whole; readers should also review the notes to the basic financial statements and financial statements to enhance their understanding of the District's financial performance.

Financial Highlights

Key financial highlights for 2006 are as follows:

- In total, net assets increased \$18,819,584. Net assets of governmental activities increased \$18,827,060, which represents a 84.2% increase from 2005. Net assets of business-type activities decreased \$7,476 or a 16.6% decrease from 2005.
- General revenues accounted for \$ 44,922,848 in revenue or 51% of all revenues. Program specific revenues in the form of charges for services and sales, grants and contributions accounted for \$43,108,743 or 49% of total revenues of \$88,031,591.
- The District had \$69,114,678 in expenses related to governmental activities; only \$43,108,583 of these expenses was offset by program specific charges for services, grants or contributions. General revenues supporting governmental activities (primarily taxes and unrestricted grants and entitlements) of \$44,922,848 were adequate to provide for these programs resulting in an increase of net assets from \$22,370,399 to \$41,197,459.
- The District had \$82,636 in expenses related to business-type activities; a total of \$160 was offset by program specific charges for services, grants and contributions. General revenue relates to a transfer from Governmental Activities of \$75,000. Total revenues were not adequate to provide for these programs resulting in a decrease to net assets from \$44,921 to \$37,445.
- The District's major governmental funds are the general fund and the classroom facilities capital projects funds fund. The general fund had \$48,722,375 in revenues and other financing sources and \$40,484,305 in expenditures and other financing uses. The general fund's fund balance increased \$8,238,070 from \$2,449,091 to \$10,687,161. The classroom facilities capital projects fund had \$21,737,588 in revenues and \$12,858,117 in expenditures. The classroom facilities capital projects fund's fund balance increased \$8,879,471 from \$13,114,102 to \$21,993,573.

Using these Basic Financial Statements

This basic financial statement report consists of a series of financial statements and notes to those statements. The statements are organized so the reader can understand the District as a whole, and then proceed to provide an increasingly detailed look at specific financial activities.

Report Components

The statement of net assets and statement of activities provide information about the cash activities of the District as a whole.

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Fund financial statements provide a greater level of detail. Funds are created and maintained on the financial records of the District as a way to segregate money whose use is restricted to a particular specified purpose. These statements present financial information by fund, presenting funds with the largest balances or most activity in separate columns.

The notes to the financial statements are an integral part of the government-wide and fund financial statements and provide expanded explanation and detail regarding the information reported in the statements.

Basis of Accounting

The basis of accounting is a set of guidelines that determine when financial events are recorded. The District has elected to present its financial statements on a modified cash basis of accounting. This basis of accounting is a basis of accounting other than generally accepted accounting principles. Under the District's modified cash basis of accounting, receipts and disbursements are recorded when cash is received or paid.

As a result of using the modified cash basis of accounting, certain assets and their related revenues (such as accounts receivable) and certain liabilities and their related expenses (such as accounts payable) are not recorded in the financial statements. Therefore, when reviewing the financial information and discussion within this report, the reader must keep in mind the limitations resulting from the use of the modified cash basis of accounting.

Reporting the Government as a Whole

The Statement of Net Assets and Statement of Activities

The statement of net assets and the statement of activities reflect how the District did financially during 2006, within the limitations of modified cash basis accounting. The statement of net assets presents the cash balances and investments of the governmental and business-type activities of the District at year end. The statement of activities compares cash disbursements with program receipts for each governmental program and business-type activity. Program receipts include charges paid by the recipient of the program's goods or services and grants and contributions restricted to meeting the operational or capital requirements of a particular program. General receipts are all receipts not classified as program receipts. The comparison of cash disbursements with program receipts identifies how each governmental function or business-type activity draws from the District's general receipts.

These statements report the District's cash position and the changes cash position. Keeping in mind the limitations of the modified cash basis of accounting, you can think of these changes as one way to measure the District's financial health. Over time, increases or decreases in the District's cash position is one indicator of whether the District's financial health is improving or deteriorating. The reader will need to consider other non-financial factors such as property tax base, current property tax laws, student enrollment growth, and facility conditions in arriving at their conclusion regarding the overall health of the District.

In the Statement of Net Assets and the Statement of Activities, the District is divided into two distinct kinds of activities:

Governmental Activities – Most of the District's programs and services are reported here including instruction, support services, operation and maintenance of plant, pupil transportation and extracurricular activities.

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Management's Discussion and Analysis
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Unaudited**

Business-type Activities – These services are provided on a charge for goods or services basis to recover all or a significant portion of the expenses of the goods or services provided. The District's uniform school supplies and the adult and community education operations are reported as business-type activities.

Reporting the District's Most Significant Funds

Fund Financial Statements

Our analysis of the District's major governmental funds begins on page 16. Some funds are required to be established by State statute, while many other funds are established by the District to help manage money for particular purposes and compliance with various grant provisions. The funds of the District are split into three categories: governmental, proprietary and fiduciary.

Governmental Funds

Most of the District's activities are reported in governmental funds. The governmental fund financial statements provide a detailed view of the District's governmental operations and the basic services it provides. Governmental fund information helps determine whether there are more or less financial resources that can be spent to finance the District's programs. The District's significant governmental funds are presented on the financial statements in separate columns. The information for nonmajor funds (funds whose activity or balances are not large enough to warrant separate reporting) is combined and presented in total in a single column. The District's major governmental fund are the General Fund and Classroom Facilities Grant Fund. The programs reported in governmental funds are closely related to those reported in the governmental activities section of the entity-wide statements.

Proprietary Funds

When the District charges customers for the services it provides, these services are generally reported in proprietary funds. When the services are provided to the general public, the activity is reported as an enterprise fund. The District has two enterprise funds, the uniform school supplies fund and the adult and community education fund. When the services are provided to other departments of the District, the service is reported as an internal service fund. The District has one internal service fund to account for rotary activities.

Fiduciary Funds

The District acts in a trustee capacity as an agent for individuals, private organizations, other governmental units and/or other funds. These activities are reported in an agency fund. The District's fiduciary activities are reported in separate Statements of Fiduciary Net Assets on page 25. These activities are excluded from the District's other financial statements because the resources cannot be utilized by the District to finance its operations.

**East Cleveland City School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2006
Unaudited**

The District as a Whole

The Statement of Net Assets provides the perspective of the District as a whole. The table below provides a summary of the District's net assets for 2006 and 2005 on a modified cash basis.

**Table 1
Net Assets**

	<u>Governmental Activities</u>		<u>Business-Type Activities</u>		<u>Total</u>	
	<u>2006</u>	<u>2005</u>	<u>2006</u>	<u>2005</u>	<u>2006</u>	<u>2005</u>
Assets:						
Cash and cash equivalents	\$ 41,197,459	\$ 22,370,399	\$ 37,445	\$ 44,921	\$ 41,234,904	\$ 22,415,320
Total assets	<u>41,197,459</u>	<u>22,370,399</u>	<u>37,445</u>	<u>44,921</u>	<u>41,234,904</u>	<u>22,415,320</u>
Net assets:						
Restricted for:						
Debt service	1,297,987	1,261,740	-	-	1,297,987	1,261,740
Capital projects	21,996,301	13,116,808	-	-	21,996,301	13,116,808
Other purposes	8,314,931	6,519,964	-	-	8,314,931	6,519,964
Unrestricted	<u>9,588,240</u>	<u>1,471,887</u>	<u>37,445</u>	<u>44,921</u>	<u>9,625,685</u>	<u>1,516,808</u>
Total net assets	<u>\$ 41,197,459</u>	<u>\$ 22,370,399</u>	<u>\$ 37,445</u>	<u>\$ 44,921</u>	<u>\$ 41,234,904</u>	<u>\$ 22,415,320</u>

As mentioned previously, net assets of governmental activities increased \$18,827,060 or 84.2% during 2005. The primary reasons contributing to the increases in cash balances are as follows:

- General revenues accounted for \$ 44,922,848 in revenue or 51% of all revenues. Program specific revenues in the form of charges for services and sales, grants and contributions accounted for \$43,108,743 or 49% of total revenues of \$88,031,591.
- The District had \$69,114,678 in expenses related to governmental activities; only \$43,108,583 of these expenses was offset by program specific charges for services, grants or contributions. General revenues supporting governmental activities (primarily taxes and unrestricted grants and entitlements) of \$44,922,848 were adequate to provide for these programs resulting in an increase of net assets from \$22,370,399 to \$41,197,459.

The net assets of the business-type activities decreased \$7,476 or 16.64%. The primary reasons contributing to the increases in cash balances are as follows:

- The District had \$82,636 in expenses related to business-type activities; a total of \$160 was offset by program specific charges for services, grants and contributions. General revenue relates to a transfer from Governmental Activities of \$75,000. Total revenues were not adequate to provide for these programs resulting in a decrease to net assets from \$44,921 to \$37,445.

Table 2 reflects changes in net assets on a modified cash basis in fiscal year 2006 and fiscal year 2005 for governmental activities, business-type activities and the total primary government.

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Unaudited**

**Table 2
Changes in Net Assets**

	<u>Governmental Activities</u>		<u>Business-Type Activities</u>		<u>Total</u>	
	<u>2006</u>	<u>2005</u>	<u>2006</u>	<u>2005</u>	<u>2006</u>	<u>2005</u>
Cash Receipts:						
Program cash receipts:						
Charges for services	\$ 1,939,186	\$ 2,315,486	\$ -	\$ -	\$ 1,939,186	\$ 2,315,486
Operating grants	<u>41,169,397</u>	<u>19,456,967</u>	<u>160</u>	<u>855</u>	<u>41,169,557</u>	<u>19,457,822</u>
Total program cash receipts	<u>43,108,583</u>	<u>21,772,453</u>	<u>160</u>	<u>855</u>	<u>43,108,743</u>	<u>21,773,308</u>
General cash receipts:						
Property taxes	12,254,986	11,894,143	-	-	12,254,986	11,894,143
Grants and entitlements	31,602,842	32,755,061	-	-	31,602,842	32,755,061
Investment earnings	847,663	474,666	-	-	847,663	474,666
Other	217,357	267,205	-	2,774	217,357	269,979
Gain on sale of assets	<u>-</u>	<u>3,841</u>	<u>-</u>	<u>-</u>	<u>3,841</u>	<u>3,841</u>
Total general cash receipts	44,922,848	45,394,916	-	-	44,922,848	45,397,690
Transfers and advances	<u>(89,693)</u>	<u>(66,496)</u>	<u>75,000</u>	<u>66,496</u>	<u>(14,693)</u>	<u>-</u>
Total cash receipts	<u>87,941,738</u>	<u>67,100,873</u>	<u>75,160</u>	<u>70,125</u>	<u>88,016,898</u>	<u>67,170,998</u>
Cash disbursements:						
Program cash disbursements:						
Instruction:						
Regular	16,499,109	17,333,061	-	-	16,499,109	17,333,061
Special	10,818,250	10,750,265	-	-	10,818,250	10,750,265
Vocational	1,541,136	85,059	-	-	1,541,136	85,059
Adult	96,499	1,282,605	-	-	96,499	1,282,605
Other	4,606,653	4,409,331	-	-	4,606,653	4,409,331
Support services						
Pupil	2,859,343	2,940,212	-	-	2,859,343	2,940,212
Instructional staff	3,592,968	4,122,827	-	-	3,592,968	4,122,827
Board of education	40,227	137,774	-	-	40,227	137,774
Administration	3,894,040	4,090,157	-	-	3,894,040	4,090,157
Fiscal	983,179	1,174,569	-	-	983,179	1,174,569
Business	734,656	470,632	-	-	734,656	470,632
Operation and maintenance						
- plant	4,830,893	4,564,730	-	-	4,830,893	4,564,730
Pupil transportation	819,131	1,011,121	-	-	819,131	1,011,121
Central services	2,062,005	1,876,089	-	-	2,062,005	1,876,089
Food service operations	1,547,862	1,923,092	-	-	1,547,862	1,923,092
Operations of non-instruction services						
Extracurricular activities	102,259	206,182	-	-	102,259	206,182
Facilities acquisition and construction	323,837	377,851	-	-	323,837	377,851
Facilities acquisition and construction	12,971,383	7,863,358	-	-	12,971,383	7,863,358
Debt service						
Principal	440,000	4,274,000	-	-	440,000	4,274,000
Interest and fiscal charges	351,248	367,902	-	-	351,248	367,902
Uniform School Supplies	-	-	-	2,873	-	2,873
Adult and community education	<u>-</u>	<u>-</u>	<u>82,636</u>	<u>52,348</u>	<u>82,636</u>	<u>52,348</u>
Total cash disbursements	<u>69,114,678</u>	<u>69,260,817</u>	<u>82,636</u>	<u>55,221</u>	<u>69,197,314</u>	<u>69,316,038</u>
Change in net assets	\$ <u>18,827,060</u>	\$ <u>(2,159,944)</u>	\$ <u>(7,476)</u>	\$ <u>14,904</u>	\$ <u>18,819,584</u>	\$ <u>(2,145,040)</u>

Net assets of the District's governmental activities increased by \$18,827,060. Total governmental expenses of \$69,114,678 were primarily offset by program revenues of \$43,108,583 and general revenues of \$44,922,848. Program revenues supported 62.3% of the total governmental expenses.

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Unaudited**

The primary sources of general revenues are from property taxes and grants and entitlements. These two revenue sources represent 50% of total governmental revenue. Property taxes support 17.7% of total expenses, while grants and entitlements support 20% of total expenses. These two revenue sources accounted for 37.7% of total governmental expenditures.

Governmental Activities

If you look at the Statement of Activities on page 14, you will see that the first column lists the major services provided by the District. The next column identifies the costs of providing these services. The major program disbursements for governmental activities are for instruction and support services, which account for 48.9% and 28.7 % of all governmental disbursements, respectively. Facilities acquisition and construction also represents a significant cost, about 18.8%. The next three columns of the Statement entitled Program Receipts identify amounts paid by people who are directly charged for the services and grants received by the District that must be used to provide a specific service. The net Receipts (Disbursement) column compares the program receipts to the cost of the service. This "net cost" amount represents the cost of the service which ends up being paid from money provided by local taxpayers. These net costs are paid from the general receipts which are presented at the bottom of the Statement. A comparison between the total cost of services and the net cost is presented in Table 3.

**Table 3
Total Cost of Program Services**

	2006		2005	
	<u>Governmental Activities</u>		<u>Governmental Activities</u>	
	<u>Total Cost of Services</u>	<u>Net Cost of Services</u>	<u>Total Cost of Services</u>	<u>Net Cost of Services</u>
Program cash disbursements:				
Instruction:				
Regular	\$ 16,499,109	\$ (6,981,030)	\$ 17,333,061	\$ (7,662,495)
Special	10,818,250	(1,003,301)	10,750,265	(5,070,067)
Adult	96,499	(96,499)	85,059	(85,056)
Vocational	1,541,136	(1,539,636)	1,282,605	(1,281,505)
Other	4,606,653	(4,602,612)	4,409,331	(4,409,331)
Support services:				
Pupil	2,859,343	(2,848,784)	2,940,212	(2,910,708)
Instructional staff	3,592,968	(2,805,970)	4,122,827	(2,770,055)
Board of education	40,227	(40,227)	137,774	2,862,226
Administration	3,894,040	(3,894,040)	4,090,157	(4,090,157)
Fiscal	983,179	(983,179)	1,174,569	(1,174,569)
Business	734,656	(734,656)	470,632	(470,632)
Operation and maintenance – plant	4,830,893	(4,830,893)	4,564,730	(4,564,730)
Pupil transportation	819,131	(819,131)	1,011,121	(1,011,121)
Central	2,062,005	(1,984,885)	1,876,089	(1,836,384)
Food service operations	1,547,862	(22,102)	1,923,092	(1,754,727)
Operations of non-instructional services	102,259	(67,738)	206,182	1,612,249
Extracurricular activities	323,837	(297,066)	377,851	(377,851)
Facilities acquisition and construction	12,971,383	8,336,902	7,863,358	(7,851,546)
Debt service				
Principal	440,000	(440,000)	4,274,000	(4,274,000)
Interest and fiscal charges	<u>351,248</u>	<u>(351,248)</u>	<u>367,902</u>	<u>(367,902)</u>
Total cash disbursements	<u>\$ 69,114,678</u>	<u>\$ (26,006,095)</u>	<u>\$ 69,260,817</u>	<u>\$ (47,488,364)</u>

**East Cleveland City School District
Management's Discussion and Analysis
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Unaudited**

The dependence upon tax revenues during fiscal year 2006 for governmental activities is apparent, as 74.7% of 2006 instruction activities are supported through taxes and other general revenues. For all governmental activities, general revenue support was 25.3% in 2006. The District's taxpayers and intergovernmental funding, as a whole, are a significant support for District's students.

Business-Type Activities

Business-type activities include uniform supplies and adult and community education. The uniform supplies operations had no activity for 2006. The adult and community education operations had revenues and transfers in of \$ 75,160 and expenses of \$82,636. This resulted in a decrease to net assets for the fiscal year of \$7,476. Management assesses the performance of each of these funds to ensure that they are run efficiently.

The District's Funds

The District's governmental funds (as presented on the balance sheet on page 16) reported a combined fund balance of \$41,135,619, which is above last year's total of \$22,315,829. In addition, the General fund had an increase of revenues of \$158,549 mainly attributed to an increase in property tax revenues. The table below reflects the fund balances and the changes in fund balances as of June 30, 2006 and 2005.

	Fund Balance <u>June 30, 2006</u>	Fund Balance <u>June 30, 2005</u>	Increase <u>(Decrease)</u>
General	\$ 10,687,161	\$ 2,449,091	\$ 8,238,070
Classroom Facilities	21,993,573	13,114,102	8,879,471
Other Governmental	<u>8,454,885</u>	<u>6,752,636</u>	<u>1,702,249</u>
Total	\$ <u>41,135,619</u>	\$ <u>22,315,829</u>	\$ <u>18,819,790</u>

The District's general fund balance increased by \$8,238,070, due to decreases in expenditures, as reflected on the table on page 10, along with a slight increase in revenues during 2006. The table that follows assists in illustrating the revenues of the general fund for 2006 and 2005.

	<u>2006 Amount</u>	<u>2005 Amount</u>	<u>Percentage Change</u>
<u>Revenues</u>			
Taxes	\$ 11,304,378	\$ 10,940,688	3.32%
Interest Earnings	424,442	104,444	306.38%
Intergovernmental	32,985,077	33,076,440	(.28)%
Other Revenue	<u>1,761,218</u>	<u>2,194,994</u>	(19.76)%
Total	\$ <u>46,475,115</u>	\$ <u>46,316,566</u>	

The property tax revenue increased \$363,690 due to an increase in the personal property tax base. The District anticipates tax collections will be less in fiscal year 2007 than in fiscal year 2006.

Intergovernmental revenue decreased \$91,363 or .28% from the prior year. This decrease is attributed to a decrease in the number of grants the District received in 2006. The increase in investment income is due to increases in the fund balance total throughout the year. The decrease in other revenue is attributed to a decrease in tuition from the prior year.

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The table that follows assists in illustrating the expenditures of the general fund for 2006 and 2005.

	2006 Amount	2005 Amount	Percentage Change
Expenditures by Category			
<u>Instruction</u>	\$ 22,936,151	\$ 23,356,644	(1.7)%
Support Services	14,417,775	14,771,011	(2.4)%
Capital Outlay	113,266	430,739	(73.7)%
Extracurricular Activities	244,293	281,280	(13.1)%
Principal Payment	-	3,849,000	(100.0)%
Total	\$ <u>37,711,485</u>	\$ <u>42,688,674</u>	

The most significant decrease was in the area of principal payments. This decrease is due to the elimination of the Ohio State Solvency Note which was paid off in 2005.

General Fund Budget Information

The District's budget is prepared in accordance with Ohio law and is based on the cash basis of accounting, utilizing cash receipts, disbursements and encumbrances. The most significant budgeted fund is the General Fund.

The District amended its revenue estimates to reflect greater than originally anticipated revenues from taxes, interest and state sources. The final budget for expenditures of \$45,563,217 was sufficient to cover actual expenditures plus other uses of \$42,499,496 by \$3,063,721. Original appropriations were amended due to a change in key staff members.

The District utilizes the five-year forecast as the original document from which to form the operating budget. After updating of the forecast for changes in revenue and expenditure assumptions the operating budget begins at the school level. Each school in the District receives an allocation augmented with resources for daily operation in the specific buildings. The site and department budgets are reviewed periodically to ensure management becomes aware of any significant variations during the year.

Capital Assets and Debt Administration

Capital Assets

The District does not report capital assets as the acquisitions are recorded as disbursements when paid.

Debt

At June 30, 2006, the District's outstanding debt included \$7,780,000 in general obligation bonds issued for classroom facility improvements. For further information regarding the District's debt, refer to Note 6 to the basic financial statements.

**East Cleveland City School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2006
Unaudited**

Current Financial Related Activities

East Cleveland School District has continued to maintain services to its students, parents and community. The Board of Education and administration closely monitor its revenues and expenditures in accordance with its financial forecast.

The financial future of the School District is not without its challenges. These challenges are internal and external in nature. The internal challenges will continue to exist as the School District must rely heavily on local property taxes to fund its operations. External challenges continue to evolve as the federal, state and local funding policies dictate.

The School District relies heavily on its taxpayers to support its operations. The community support for the schools is strong. The School District has communicated to the community they rely upon their support for the majority of its operations. The community also realizes the income generated by local levies remains relatively constant, therefore, forcing the School District to come back to the voters to ask for additional support.

East Cleveland School District has not anticipated any meaningful growth in state revenue. With 27 percent of the general revenues for the School District coming from local tax payers, one can see the significant impact this change would have on the School District and ultimately, the residential taxpayers.

As a result of the challenges mentioned above, it is imperative the School District's management continue to carefully and prudently plan in order to provide the resources required to meet changing educational needs.

Contacting the District's Financial Management

This financial report is designed to provide our citizen's, taxpayers, and investors and creditors with a general overview of the District's finances and to show the District's accountability for the money it receives. If you have questions about this report or need additional financial information contact Mary Ann Nowak, Treasurer, or by calling (216) 268-6587.

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East Cleveland City School District

Statement of Net Assets – Modified Cash Basis

June 30, 2006

	Primary Government		Total
	Governmental Activities	Business - Type Activities	
Assets:			
Equity in pooled cash and cash equivalents	\$ <u>41,197,459</u>	\$ <u>37,445</u>	\$ <u>41,234,904</u>
Total assets	<u>41,197,459</u>	<u>37,445</u>	<u>41,234,904</u>
Net assets:			
Restricted for:			
Capital projects	21,996,301	-	21,996,301
Debt Service	1,297,987	-	1,297,987
Other purposes	8,314,931	-	8,314,931
Unrestricted	<u>9,588,240</u>	<u>37,445</u>	<u>9,625,685</u>
Total net assets	\$ <u>41,197,459</u>	\$ <u>37,445</u>	\$ <u>41,234,904</u>

The Notes to the Basic Financial Statements are an Integral Part of this Statement

East Cleveland City School District

Statement of Activities – Modified Cash Basis

For The Fiscal Year Ended June 30, 2006

	Cash Disbursements	Program Cash Receipts	
		Charges for Services	Operating Grants and Contributions
Governmental activities:			
Instruction:			
Regular education	\$ 16,499,109	\$ 6,302	\$ 9,511,777
Special education	10,818,250	1,720,395	8,094,554
Adult	96,499	-	-
Vocational education	1,541,136	-	1,500
Other	4,606,653	4,041	-
Support services:			
Pupil	2,859,343	10,559	-
Instructional staff	3,592,968	-	786,998
Board of education	40,227	-	-
Administration	3,894,040	-	-
Fiscal	983,179	-	-
Business	734,656	-	-
Operations and maintenance - plant	4,830,893	-	-
Pupil transportation	819,131	-	-
Central services	2,062,005	-	77,120
Food service operations	1,547,862	128,245	1,397,515
Operations and non-instructional services	102,259	34,521	-
Extracurricular activities	323,837	26,771	-
Facilities acquisition	12,971,383	8,352	21,299,933
Debt service:			
Principal	440,000	-	-
Interest and fiscal charges	351,248	-	-
Total governmental activities	<u>69,114,678</u>	<u>1,939,186</u>	<u>41,169,397</u>
Business-type activities:			
Adult and community education	<u>82,636</u>	<u>-</u>	<u>160</u>
Total business-type activities	<u>82,636</u>	<u>-</u>	<u>160</u>
Totals	\$ <u>69,197,314</u>	\$ <u>1,939,186</u>	\$ <u>41,169,557</u>

General cash receipts:
 Property taxes levies for:
 General purpose
 Grant and entitlements not restricted to
 specific programs
 Investment earnings
 Gain on sale of assets
 Miscellaneous
 Total general cash receipts
 Advances
 Transfers
 Total general cash receipts, transfers and advances

Change in net assets

Net assets at, beginning of year, restated

Net assets at, end of year

The Notes to the Basic Financial Statements are an Integral Part of this Statement

<u>Primary Government</u>		
<u>Governmental Activities</u>	<u>Business - Type Activities</u>	<u>Total</u>
\$ (6,981,030)	\$ -	\$ (6,981,030)
(1,003,301)	-	(1,003,301)
(96,499)	-	(96,499)
(1,539,636)	-	(1,539,636)
(4,602,612)	-	(4,602,612)
(2,848,784)	-	(2,848,784)
(2,805,970)	-	(2,805,970)
(40,227)	-	(40,227)
(3,894,040)	-	(3,894,040)
(983,179)	-	(983,179)
(734,656)	-	(734,656)
(4,830,893)	-	(4,830,893)
(819,131)	-	(819,131)
(1,984,885)	-	(1,984,885)
(22,102)	-	(22,102)
(67,738)	-	(67,738)
(297,066)	-	(297,066)
8,336,902	-	8,336,902
(440,000)	-	(440,000)
<u>(351,248)</u>	<u>-</u>	<u>(351,248)</u>
<u>(26,006,095)</u>	<u>-</u>	<u>(26,006,095)</u>
<u>-</u>	<u>(82,476)</u>	<u>(82,476)</u>
<u>-</u>	<u>(82,476)</u>	<u>(82,476)</u>
<u>(26,006,095)</u>	<u>(82,476)</u>	<u>(26,088,571)</u>
12,254,986	-	12,254,986
31,602,842	-	31,602,842
847,663	-	847,663
<u>217,357</u>	<u>-</u>	<u>217,357</u>
44,922,848	-	44,922,848
(102)	-	(102)
<u>(89,591)</u>	<u>75,000</u>	<u>(14,591)</u>
<u>44,833,155</u>	<u>75,000</u>	<u>44,908,155</u>
18,827,060	(7,476)	18,819,584
<u>22,370,399</u>	<u>44,921</u>	<u>22,415,320</u>
\$ <u>41,197,459</u>	\$ <u>37,445</u>	\$ <u>41,234,904</u>

East Cleveland City School District

Statement of Assets and Fund Balances – Modified Cash Basis Governmental Funds

June 30, 2006

	<u>General</u>	<u>Classroom Facilities Grant</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Assets:				
Equity in pooled cash and cash equivalents	\$ <u>10,687,161</u>	\$ <u>21,993,573</u>	\$ <u>8,454,885</u>	\$ <u>41,135,619</u>
Total assets	\$ <u>10,687,161</u>	\$ <u>21,993,573</u>	\$ <u>8,454,885</u>	\$ <u>41,135,619</u>
Fund balances:				
Reserved for encumbrances	\$ 2,015,191	\$ 38,567,105	\$ 1,216,964	\$ 41,799,260
Reserve for textbooks	1,098,921	-	-	1,098,921
Unreserved; undesignated (deficit) for:				
General fund	7,573,049	-	-	7,573,049
Special revenue funds	-	-	7,237,921	7,237,921
Capital projects funds	-	<u>(16,573,532)</u>	-	<u>(16,573,532)</u>
Total fund balances	\$ <u>10,687,161</u>	\$ <u>21,993,573</u>	\$ <u>8,454,885</u>	\$ <u>41,135,619</u>

East Cleveland City School District

Reconciliation of Total Governmental Fund Balances to Net Assets of Governmental Activities

June 30, 2006

Total Governmental Funds Balances \$ 41,135,619

Amounts Reported for Governmental Activities in the
Statement of Net Assets are different because:

Internal Service Funds are used by management to charge the costs of certain activities, such as insurance to individual funds. The assets of the Internal Service Funds are included in Governmental Activities in the Statement of Net Assets.

61,840

Net assets of governmental activities \$ 41,197,459

East Cleveland City School District

Statement of Cash Receipts, Disbursements and Changes in Fund Balance – Modified Cash Basis Governmental Funds

For The Fiscal Year Ended June 30, 2006

	General	Classroom Facilities Grant	Other Governmental Funds	Total Governmental Funds
Cash receipts:				
Taxes	\$ 11,304,378	\$ -	\$ 950,608	\$ 12,254,986
Intergovernmental	32,985,077	21,299,933	18,100,981	72,385,991
Tuition and fees	1,720,395	-	-	1,720,395
Earnings on investments	424,442	423,221	-	847,663
Food service	-	-	128,245	128,245
Extracurricular activities	-	-	37,209	37,209
Classroom materials and fees	6,302	-	-	6,302
Miscellaneous	34,521	13,400	390,905	438,826
Total cash receipts	<u>46,475,115</u>	<u>21,736,554</u>	<u>19,607,948</u>	<u>87,819,617</u>
Cash disbursements:				
Instruction:				
Regular education	11,044,243	-	5,454,866	16,499,109
Special education	5,868,553	-	4,902,670	10,771,223
Adult	-	-	96,199	96,199
Vocational education	1,416,702	-	124,434	1,541,136
Other	4,606,653	-	-	4,606,653
Support Services:				
Pupils	1,614,506	-	1,244,837	2,859,343
Instructional staff	698,484	-	2,894,484	3,592,968
Board of education	40,227	-	-	40,227
Administration	3,367,723	-	526,317	3,894,040
Fiscal services	963,834	-	19,345	983,179
Business	732,858	-	1,798	734,656
Operations and maintenance - plant	4,247,955	-	582,938	4,830,893
Pupil transportation	794,192	-	24,939	819,131
Central services	1,957,996	-	104,009	2,062,005
Food service operations	-	-	1,547,862	1,547,862
Operations of non-instructional services	-	-	102,259	102,259
Extracurricular activities:				
Academic and subject oriented	64,646	-	453	65,099
Sports oriented	162,995	-	79,091	242,086
Co-curricular	16,652	-	-	16,652
Capital Outlay:				
Site improvement services	2,954	-	-	2,954
Other facilities acquisition and construction	110,312	12,858,117	-	12,968,429
Debt services:				
Principal	-	-	440,000	440,000
Interest and fiscal charges	-	-	351,248	351,248
Total cash disbursements	<u>37,711,485</u>	<u>12,858,117</u>	<u>18,497,749</u>	<u>69,067,351</u>

Continued

The notes to the basic financial statements are an integral part of this statement

East Cleveland City School District

Statement of Cash Receipts, Disbursements and Changes in Fund Balance – Modified Cash Basis Governmental Funds (continued)

For The Fiscal Year Ended June 30, 2006

	<u>General</u>	<u>Classroom Facilities Grant</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Total excess of cash receipts over (under) cash disbursements	<u>8,763,630</u>	<u>8,878,437</u>	<u>1,110,199</u>	<u>18,752,266</u>
Other financing sources (uses):				
Advances – in	2,050,976	-	2,032,796	4,083,772
Transfers – in	-	-	650,319	650,319
Refund of prior year disbursements	196,284	1,034	-	197,318
Advances – out	(2,032,898)	-	(2,050,976)	(4,083,874)
Transfers – out	(739,922)	-	-	(739,922)
Refund of prior year receipts	-	-	(40,089)	(40,089)
Total other financing sources (uses)	<u>(525,560)</u>	<u>1,034</u>	<u>592,050</u>	<u>67,524</u>
Net change in fund balance	8,238,070	8,879,471	1,702,249	18,819,790
Fund balance at beginning of year	<u>2,449,091</u>	<u>13,114,102</u>	<u>6,752,636</u>	<u>22,315,829</u>
Fund balance at end of year	\$ <u>10,687,161</u>	\$ <u>21,993,573</u>	\$ <u>8,454,885</u>	\$ <u>41,135,619</u>

The notes to the basic financial statements are an integral part of this statement

East Cleveland City School District

Reconciliation of the Statement of Cash Receipts, Disbursements and Changes in Fund Balances of Governmental Funds to the Statement of Activities

For The Fiscal Year Ended June 30, 2006

Net Change in Fund Balances – Total Governmental Funds \$ 18,819,790

Amounts Reported for Governmental Activities in the Statement of Activities are different because:

Internal Service Funds are used by management to charge to costs of certain activities, such as insurance to individual funds. The net receipts (disbursements) of the Internal Service Funds are reported with Governmental Activities.

7,270

Change in Net Assets of Governmental Activities \$ 18,827,060

The notes to the basic financial statements are an integral part of this statement

East Cleveland City School District

Statement of Cash Receipts, Cash Disbursements, and Changes in Fund Balances Budget and Actual – Budget Basis - General Fund (continued)

For The Fiscal Year Ended June 30, 2006

	Budget		Actual	Variance with
	Original	Final		Final Budget Positive (Negative)
Cash receipts:				
Taxes	\$ 11,895,926	\$ 12,320,543	\$ 11,304,378	\$ (1,016,165)
Earnings on investments	484,743	410,129	424,442	14,313
Classroom materials and fees	7,197	6,089	6,302	213
Tuition and fees	1,964,812	1,662,382	1,720,395	58,013
Miscellaneous	39,425	33,357	34,521	1,164
Intergovernmental	37,807,536	31,988,081	32,985,077	996,996
Total cash receipts	<u>52,199,639</u>	<u>46,420,581</u>	<u>46,475,115</u>	<u>54,534</u>
Cash disbursements:				
Instruction:				
Regular	12,270,901	12,473,121	11,634,188	838,933
Special	6,520,359	6,627,813	6,182,030	445,783
Vocational	1,574,052	1,599,992	1,492,377	107,615
Other	5,134,502	5,202,651	4,853,503	349,148
Support service:				
Pupils	1,793,825	1,823,387	1,700,747	122,640
Instructional staff	776,063	788,852	735,795	53,057
Board of education	44,695	45,432	42,376	3,056
Administration	3,741,768	3,803,431	3,547,615	255,816
Fiscal services	1,070,885	1,088,533	1,015,319	73,214
Business	814,255	827,673	772,005	55,668
Operation and maintenance-plant	4,719,765	4,797,545	4,474,865	322,680
Pupil transportation	882,401	896,943	836,614	60,329
Central	2,175,466	2,211,317	2,062,585	148,732
Extracurricular:				
Academic and subject oriented	71,826	73,010	68,099	4,911
Sports oriented	181,099	184,083	171,702	12,381
Co-curricular	18,501	18,806	17,541	1,265
Facilities acquisition and construction:				
Site improvement services	125,846	127,920	119,316	8,604
Total cash disbursements	<u>41,916,209</u>	<u>42,590,509</u>	<u>39,726,677</u>	<u>2,863,832</u>
Total excess of cash receipts over (under) cash disbursements	<u>10,283,430</u>	<u>3,830,072</u>	<u>6,748,438</u>	<u>2,918,366</u>

Continued

The notes to the basic financial statements are an integral part of this statement

East Cleveland City School District

Statement of Cash Receipts, Cash Disbursements, and Changes in Fund Balances Budget and Actual – Budget Basis - General Fund (continued)

For The Fiscal Year Ended June 30, 2006

	Budget		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
Other financing sources (uses):				
Advances-in	2,342,358	1,981,815	2,050,976	69,161
Refund of prior year disbursements	421,748	356,831	196,284	(160,547)
Advances-out	(2,144,152)	(2,179,446)	(2,032,897)	146,549
Transfers-out	<u>(765,037)</u>	<u>(793,262)</u>	<u>(739,922)</u>	<u>53,340</u>
Total other financing sources (uses)	<u>(145,083)</u>	<u>(634,062)</u>	<u>(525,559)</u>	<u>108,503</u>
Net change in fund balance	10,138,347	3,196,010	6,222,879	3,026,869
Fund balance at beginning of year	692,225	692,225	692,225	-
Prior year encumbrances appropriated	<u>1,756,866</u>	<u>1,756,866</u>	<u>1,756,866</u>	<u>-</u>
Fund balance at end of year	\$ <u>12,587,438</u>	\$ <u>5,645,101</u>	\$ <u>8,671,970</u>	\$ <u>3,026,869</u>

The notes to the basic financial statements are an integral part of this statement

East Cleveland City School District

Statement of Fund Net Assets – Modified Cash Basis Proprietary Funds

June 30, 2006

	<u>Business-Type Activities Enterprise Funds</u>	<u>Governmental Activities Internal Service Funds</u>
Assets:		
Current assets:		
Cash and cash equivalents	\$ <u>37,445</u>	\$ <u>61,840</u>
Total assets	<u>37,445</u>	<u>61,840</u>
Net assets:		
Unrestricted	<u>37,445</u>	<u>61,840</u>
Total net assets	\$ <u><u>37,445</u></u>	\$ <u><u>61,840</u></u>

The notes to the basic financial statements are an integral part of this statement

East Cleveland City School District

Statement of Cash Receipts, Disbursements and Changes in Fund Net Assets – Modified Cash Basis Proprietary Funds

For the Fiscal Year Ended June 30, 2006

	<u>Business-Type Activities</u>	<u>Governmental Activities</u>
	<u>Enterprise Funds</u>	<u>Internal Service Funds</u>
Operating cash receipts:		
Tuition and fees	\$ 160	\$ -
Extracurricular activities	-	8,352
Miscellaneous	-	6,144
Total operating cash receipts	<u>160</u>	<u>14,496</u>
Operating cash disbursements:		
Salaries and wages	37,991	-
Fringe benefits	16,892	-
Contract services	23,625	7,006
Materials and supplies	<u>4,128</u>	<u>232</u>
Total operating cash disbursements	<u>82,636</u>	<u>7,238</u>
Income (loss) before transfers	(82,476)	7,258
Transfers – in	<u>75,000</u>	<u>12</u>
Change in net assets	(7,476)	7,270
Total net assets at beginning of year	<u>44,921</u>	<u>54,570</u>
Total net assets at end of year	\$ <u><u>37,445</u></u>	\$ <u><u>61,840</u></u>

The notes to the basic financial statements are an integral part of this statement

East Cleveland City School District

Statement of Fiduciary Net Assets – Modified Cash Basis Fiduciary Funds

June 30, 2006

	<u>Trust Funds</u>	<u>Agency</u>
Assets:		
Equity in pooled cash and cash equivalents	\$ <u>9,917</u>	\$ <u>34,901</u>
Net assets:		
Unrestricted	\$ <u>9,917</u>	\$ <u>34,901</u>

The notes to the basic financial statements are an integral part of this statement

East Cleveland City School District

Statement of Changes in Fiduciary Net Assets – Modified Cash Basis Fiduciary Funds

For the Fiscal Year Ended June 30, 2006

	<u>Trust Funds</u>
Additions:	
Contributions	\$ <u>4,750</u>
Total additions	<u>4,750</u>
Less:	
Contractual Services	<u>(9,450)</u>
Loss before transfers and advances	(4,700)
Transfers – In	11
Advances – In	<u>102</u>
Change in net assets	(4,587)
Net assets beginning of year	<u>14,504</u>
Net assets end of year	\$ <u><u>9,917</u></u>

East Cleveland City School District

Notes To Basic Financial Statements

For the Fiscal Year Ended June 30, 2006

Note 1: Description of the School District and Reporting Entity

Although the first public school in East Cleveland was established by the township in 1846, the will of John Shaw in 1835 provided for the establishment of a private academy in East Cleveland Township. In 1870, the Board of Education of East Cleveland Township assumed management of the academy and in 1883, the Board and the Shaw Trustees agreed on the Board's long-range operation of the school.

The East Cleveland City School District (School District) is a body politic and corporate established for the purpose of exercising the rights and privileges conveyed to it by the constitution and laws of the State of Ohio. The School District operates under a locally-elected five-member Board form of government. Each member is elected to a four-year term. The School District provides educational services as mandated by State and/or federal agencies. This Board of Education controls the School District's nine instructional/support facilities staffed by 146 classified employees and 328 certificated full-time teaching personnel who provide services to 4,735 students and other community members.

Reporting Entity

A reporting entity is comprised of the primary government, component units, and other organizations that are included to ensure that the financial statements are not misleading. The primary government of the School District consists of all funds, departments, boards, and agencies that are not legally separate from the School District. For East Cleveland City School District, this includes general operations, food service, and student related activities of the School District.

Component units are legally separate organizations for which the School District is financially accountable. Component units may also include organizations that are fiscally dependent on the School District in that the School District approves the budget, the issuance of debt or the levying of taxes. Currently, the School District does not have any component units.

The School District is associated with a related organization, an insurance purchasing pool, and a jointly-governed organization. These organizations are the East Cleveland Public Library, Lakeshore Northeast Ohio Computer Association, Ohio School Boards Association Workers' Compensation Group Rating Plan and the Ohio Schools Council Association. These organizations are presented in Notes 13, 14, and 15 to the basic financial statements.

Note 2: Summary of Significant Accounting Policies

As discussed further in Note 2C, these financial statements are presented on a *modified* cash basis of accounting. This *modified* cash basis of accounting differs from accounting principles generally accepted in the United States of America (GAAP). Generally accepted accounting principles include all relevant Governmental Accounting Standards Board (GASB) pronouncements, which have been applied to the extent they are applicable to the *modified* cash basis of accounting. In the government-wide financial statements and the fund financial statements for the proprietary funds, Financial Accounting Standards Board (FASB) pronouncements and Accounting Principles Board (APB) opinions issued on or before November 30, 1989, have been applied, to the extent they are applicable to the *modified* cash basis of accounting, unless those pronouncements conflict with or contradict GASB pronouncements, in which case GASB prevails. The School District does not apply FASB statements issued after November 30, 1989, to its business-type activities and to its enterprise funds.

East Cleveland City School District

Notes To Basic Financial Statements

For the Fiscal Year Ended June 30, 2006

Note 2: Summary of Significant Accounting Policies (continued)

A. Fund Accounting

The School District uses funds to maintain its financial records during the fiscal year. Fund accounting is designed to demonstrate legal compliance and to aid management by segregating transactions related to certain School District functions or activities. A fund is defined as a fiscal and accounting entity with a self-balancing set of accounts. The various funds of the School District are grouped into the categories governmental, proprietary, and fiduciary.

Governmental Funds

The School District classifies funds financed primarily from taxes, intergovernmental receipts (e.g., grants) and other non-exchange transactions as governmental funds. The following are the District's major governmental funds:

General Fund – The General Fund is used to account for all financial resources, except those required to be accounted for in another fund. The general fund is available to the School District for any purpose provided it is expended or transferred according to the general laws of Ohio.

Classroom Facilities Fund – The Classroom Facilities Fund is used to account for intergovernmental receipts, property taxes and interest received and expended in connection with the contracts entered into by the School District and the Ohio School Facilities Commission for the building and equipping of new classroom facilities.

The other governmental funds of the School District account for grants and other resources, debt service, and capital projects of the School District whose uses are restricted to a particular purpose.

Proprietary Funds

The School District classifies funds financed primarily from user charges for goods or services as proprietary. Proprietary funds are classified as enterprise or internal service.

Enterprise Funds – The enterprise funds are used to account for operations (a) that are financed and operated in a manner similar to private business enterprises – where the intent of the governing body is that the costs (expenses) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges; or (b) where the governing body has decided that periodic determination of revenues received, expenses paid, and/or net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes. The District has one enterprise fund to account for adult and community education. Internal Service Funds account for the financing of services provided by one department or agency to other departments or agencies of the School District on a cost reimbursement basis. The District has one internal service fund.

East Cleveland City School District

Notes To Basic Financial Statements

For the Fiscal Year Ended June 30, 2006

Note 2: Summary of Significant Accounting Policies (continued)

A. Fund Accounting (continued)

Fiduciary Funds

The fiduciary fund category is split into four classifications: pension trust funds, investment trust funds, private-purpose trust funds, and agency funds. Trust funds are used to account for assets held by the School District under a trust agreement for individuals, private organizations, or other governments and are therefore not available to support the School District's own programs. The District's special purpose trust fund accounts for programs that provide college scholarships to students after graduation. Agency funds are custodial in nature and do not involve measurement of results of operations. The District's has one agency fund that accounts for resources that belong to the student bodies of the various schools, accounting for sales, and other revenue generating activity.

B. Measurement Focus

The School District's basic financial statements consist of government-wide statements, including a statement of net assets and a statement of activities, and fund financial statements, which provide a more detailed level of financial information.

Government-wide Financial Statements

The statement of net assets and the statement of activities display information about the School District as a whole. These statements include the financial activities of the primary government, except for fiduciary funds. The statements distinguish between those activities of the School District that are governmental and those that are considered business-type activities.

The statement of net assets presents the cash balance of the governmental and business-type activities of the School District at fiscal year end.

The government-wide statement of activities presents a comparison between direct expenses and program revenues for each segment of the business-type activities of the School District and for each function or program of the School District's governmental activities. Direct expenses are those that are specifically associated with a service, program, or department and therefore clearly identifiable to a particular function. Program revenues include charges paid by the recipient of the goods or services offered by the program and grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues, which are not classified as program revenues, are presented as general revenues of the School District, with certain limited exceptions. The comparison of direct expenses with program revenues identifies the extent to which each business segment or governmental function is self-financing or draws from the general revenues of the School District.

East Cleveland City School District

Notes To Basic Financial Statements

For the Fiscal Year Ended June 30, 2006

Note 2: Summary of Significant Accounting Policies (continued)

B. Measurement Focus (continued)

Fund Financial Statements

Fund financial statements report detailed financial information of the School District. The focus of governmental and enterprise fund financial statements is on major funds rather than reporting funds by type. Each major fund is presented in a separate column. Nonmajor funds are aggregated and presented in a single column. Internal service funds are combined and the totals are presented in a single column on the face of the proprietary fund statements. Fiduciary funds are reported by fund type.

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operation. The principal operating revenues of the District's internal service fund is charges for sales and services. Operating expenses for internal service funds include the cost of sales and services and administrative expenses. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

C. Basis of Accounting

The School District's financial statements are prepared using the modified cash basis of accounting. Except for modifications having substantial support, receipts are recorded in the School District's financial records and reported in the financial statements when cash is received rather than when earned and disbursements are recorded when cash is paid rather than when a liability is incurred. Any such modifications made by the School District are described in the appropriate section in this note.

As a result of the use of this modified cash basis of accounting, certain assets and their related revenues (such as accounts receivable and revenue for billed or provided services not yet collected) and certain liabilities and their related expenses (such as accounts payable and expenses for goods or services received but not yet paid, and accrued expenses and liabilities) are not recorded in these financial statements.

D. Budgetary Process

All funds, except agency funds, are legally required to be budgeted and appropriated. The major documents prepared are the tax budget, the certificate of estimated resources, and the appropriations resolution, all of which are prepared on the budgetary basis of accounting. The tax budget demonstrates a need for existing or increased tax rates. The certificate of estimated resources establishes a limit on the amount the Board of Education may appropriate. The appropriations resolution is the Board's authorization to spend resources and sets annual limits on cash disbursements plus encumbrances at the level of control selected by the Board. The legal level of control has been established by the Board at the fund level for all funds. Budgetary allocations at the function and object level within all funds are made by the Treasurer.

East Cleveland City School District

Notes To Basic Financial Statements

For the Fiscal Year Ended June 30, 2006

Note 2: Summary of Significant Accounting Policies (continued)

D. Budgetary Process (continued)

The certificate of estimated resources may be amended during the fiscal year if projected increases or decreases in receipts are identified by the Treasurer. The amounts reported as the original budgeted amounts on the budgetary statements reflect the amounts on the certificate of estimated resources when the original appropriations were adopted. The amounts reported as the final budgeted amounts on the budgetary statements reflect the amounts on the amended certificate of estimated resources in effect at the time final appropriations were passed by the Board.

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

E. Cash and Investments

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

Investments of the School District's cash management pool and investments with an original maturity of three months or less at the time they are purchased by the School District are presented on the financial statements as cash equivalents. Investments with an initial maturity of more than three months that were not purchased from the pool are reported as investments.

Investments are reported as assets. Accordingly, purchases of investments are not recorded as disbursements, and sales of investments are not recorded as receipts. Gains or losses at the time of sale are recorded as receipts or negative receipts (contra revenue), respectively.

During fiscal year 2006, investments were limited to Victory Federal Money Market and STAROhio, the State Treasurer's Investment Pool, and federal government agency securities. All investments of the School District had a maturity of two years or less. Investments are reported at fair value which is based on quoted market prices.

The School District has invested funds in the State Treasury Assets Reserve (STAROhio) during fiscal year 2006. STAROhio is an investment pool managed by the State Treasurer's Office which allows governments within the State to pool their funds for investment purposes. STAROhio is not registered with the SEC as an investment company, but does operate in a manner consistent with Rule 2a7 of the Investment Company Act of 1940. Investments in STAROhio are valued at STAROhio's share price which is the price the investment could be sold for on June 30, 2006.

Following Ohio statutes, the Board of Education has, by resolution, specified the funds to receive an allocation of interest. Interest revenue credited to the General Fund during fiscal year 2006 amounted to \$424,442, of this amount \$180,043 was assigned to other funds.

East Cleveland City School District

Notes To Basic Financial Statements

For the Fiscal Year Ended June 30, 2006

Note 2: Summary of Significant Accounting Policies (continued)

F. Restricted Assets

Assets are reported as restricted when limitations on their use change the nature or normal understanding of the availability of the asset. Such constraints are either imposed by creditors, contributors, grantors, laws of other governments, or imposed by law through constitutional provisions or enabling legislation. Restricted assets in the General Fund include amounts required by State statute to be set aside for textbooks and capital improvements. See Note 10 for additional information regarding set-asides.

G. Inventory and Prepaid Items

The District reports disbursement for inventory and prepaid items when paid. These items are not reflected as assets on the accompanying financial statements.

H. Capital Assets

Acquisitions of property, plant and equipment are recorded as disbursements when paid. These items are not reflected as assets on the accompanying financial statements.

I. Interfund Balances

The District reports advances-in and advances-out for interfund loans. These items are not reflected as assets and liabilities in the accompanying financial statement.

J. Employer Contributions to Cost-Sharing Pension Plans

The District recognizes the disbursement for employer contributions to cost-sharing pension plans when they are paid. As described in Notes 7 and 8, the employer contributions include portions for pension benefits and for postretirement health care benefits.

K. Long-Term Obligations

The District's modified cash basis financial statements do not report liabilities for bonds and other long-term obligations. Proceeds of debt are reported when cash is received and principal and interest payments are reported when paid. Since recording a capital asset when entering into a capital lease is not the result of a cash transaction, neither an other financing source nor a capital outlay expenditure are reported at inception. Lease payments are reported when paid.

L. Accumulated Leave

In certain circumstances, such as upon leaving employment or retirement, employees are entitled to cash payments for unused leave. Unpaid leave is not reflected as a liability under the District's modified cash basis of accounting.

East Cleveland City School District

Notes To Basic Financial Statements (continued)

For the Fiscal Year Ended June 30, 2006

Note 2: Summary of Significant Accounting Policies (continued)

M. Fund Balance Reserves

The School District records reservations for portions of fund equity which are legally segregated for specific future use or which do not represent available expendable resources and therefore are not available for appropriations or expenditures. Unreserved fund balance indicates that portion of fund balance which is available for appropriation in future periods. Fund balance reserves are established for encumbrances, inventory, textbooks and budget stabilization.

The reserve for textbooks represents money required to be set-aside by statute to be used for the acquisition of textbooks or other instructional materials.

N. Net Assets

Net assets are reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the School District or through external restrictions imposed by creditors, grantors, or laws or regulations of other governments. There are no restricted assets due to enabling legislation. Net assets restricted for other purposes include resources restricted for federal and state grants restricted to cash disbursement for specified purposes. The School District's policy is to first apply restricted resources when a cash disbursement is incurred for purposes for which both restricted and unrestricted net assets are available.

O. Operating Revenues and Expenses

Operating revenues are those revenues that are generated directly from the primary activity of the proprietary funds. For the School District, these revenues are tuition and miscellaneous for adult education and youths and preschool classes, and sales and miscellaneous uniform school supplies. Operating expenses are necessary costs incurred to provide the good or service that is the primary activity of the fund. Revenues and expenditures not meeting this definition are reported as non-operating.

P. Interfund Activity

Transfers between governmental and business-type activities on the government-wide statements are reported in the same manner as general receipts.

Exchange transactions between funds are reported as receipts in the seller funds and as disbursements in the purchaser funds. Flows of cash or goods from one fund to another without a requirement for repayment are reported as interfund transfers. Interfund transfers are reported as other financing sources/uses in governmental funds and after nonoperating receipts/cash disbursements in the food service enterprise fund. Repayments from funds responsible for particular cash disbursements to the funds that initially paid for them are not presented on the financial statements.

East Cleveland City School District

Notes To Basic Financial Statements (continued)

For the Fiscal Year Ended June 30, 2006

Note 2: Summary of Significant Accounting Policies (continued)

Q. Extraordinary and Special Items

Extraordinary items are transactions or events that are both unusual in nature and infrequent in occurrence. Special items are transactions or events that are within the control of the School District and that are either unusual in nature or infrequent in occurrence. Neither type of transaction occurred during 2006.

R. Reclassification

Certain accounts in the prior year financial statements have been reclassified for comparative purposes to conform with the presentation in the current year financial statements.

Note 3: Budgetary Basis of Accounting

The budgetary basis as provided by law is based upon accounting for certain transactions on the basis of cash receipts, disbursement, and encumbrances. The Statement of Receipts, Disbursements and Changes in Fund Balance – Budget and Actual – Budgetary Basis presented for the General Fund is prepared on the budgetary basis to provide a meaningful comparison of actual results with the budget. The difference between the budgetary basis and the modified cash basis is outstanding year end encumbrances, which are treated as cash disbursement (budgetary basis) rather than as a reservation of fund balance (modified cash basis). The encumbrances outstanding at year end (budgetary basis) amounted to \$2,015,191 for the General Fund.

Note 4: Deposits and Investments

State statutes classify monies held by the School District into three categories.

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

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

Interim deposits are deposits of interim monies. Interim monies are those monies, which are not needed for immediate use but which will be needed before the end of the current period of designation of depositories.

Interim deposits must be evidenced by time certificates of deposit maturing not more than one year from the date of deposit or by savings accounts including passbook accounts.

East Cleveland City School District

Notes To Basic Financial Statements (continued)

For the Fiscal Year Ended June 30, 2006

Note 4: Deposits and Investments (continued)

Protection of School District's deposits is provided by the Federal Deposit Insurance Corporation (FDIC), by eligible securities pledged by the financial institution as security for repayment, by surety company bonds deposited with the treasurer by the financial institution or by a single collateral pool established by the financial institution to secure the repayment of all public monies deposited with the institution.

Interim monies may be deposited or invested in the following securities:

1. United States Treasury Notes, Bills, Bonds, or any other obligation or security issued by the United States Treasury or any other obligation guaranteed as to principal and interest by the United States;
2. Bonds, notes, debentures, or any other obligations or securities issued by any federal government agency or instrumentality, including but not limited to, the Federal National Mortgage Association, Federal Home Loan Bank, Federal Farm Credit Bank, Federal Home Loan Mortgage Corporation, Government National Mortgage Association, and Student Loan Marketing Association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;
3. Written repurchase agreements in the securities listed above provided that the market value of the securities subject to the repurchase agreement must exceed the principal value of the agreement by at least two percent and be marked to market daily, and that the term of the agreement must not exceed thirty days;
4. Bonds and other obligations of the State of Ohio;
5. No-load money market mutual funds consisting exclusively of obligations described in division (1) or (2) of this section and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions;
6. The State Treasurer's investment pool (STAROhio); and
7. Certain banker's acceptance and commercial paper (if authorized by the Board of Education).

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

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

A. Deposits

At fiscal year-end, the carrying amount of the School District's deposits was \$2,636,273 and the bank balance was \$2,289,491. \$300,000 of the bank balance was covered by federal depository insurance. \$1,989,491 was uninsured and uncollateralized. Although the securities serving as collateral were held by the pledging financial institution's trust department in the School District's name and all State statutory requirements for the deposits of money had been followed, noncompliance with federal requirements would potentially subject the School District to a successful claim by the Federal Deposit Insurance Corporation.

East Cleveland City School District

Notes To Basic Financial Statements (continued)

For the Fiscal Year Ended June 30, 2006

Note 4: Deposits and Investments (continued)

B. Investments

Investments are reported as carrying value. As of June 30, 2006 the District had the following investments:

	Carrying Value	Maturity	
		6 months or less	More than 6 months
Federal National Mortgage Association Notes	\$ 3,000,000	\$ 3,000,000	\$ -
Repurchase Agreements	3,753,664	3,753,664	-
STAROhio*	9,853,596	9,853,596	-
Federal Home Loan Mortgage Corp. Notes	4,128,849	1,466,250	2,662,599
Federal Home Loan Bank Cons. Bonds	2,001,644	-	2,001,644
Federal National Mortgage Association Bonds	750,000	-	750,000
Money Market Mutual Funds	<u>15,155,696</u>	<u>15,155,696</u>	<u>-</u>
Total Portfolio	\$ <u>38,643,449</u>	\$ <u>33,229,206</u>	\$ <u>5,414,243</u>

* - Noncategorized

Interest Rate Risk arises because potential purchasers of debt securities will not agree to pay face value for those securities if interest rates subsequently increase. The District's investment policy addresses interest rate risk requiring that the District's investment portfolio be structured so that securities mature to meet cash requirements for ongoing operations and/or long-term debt payments, thereby avoiding that need to sell securities on the open market prior to maturity and by investing operation funds primarily in short-term investments. The District investment policy also limits security purchases to those that mature five years unless specifically matched to a specific cash flow. To date, no investments have been purchased with a life greater than four years.

Custodial Risk for investments is the risk that, in the event of the failure of the counterparty to a transaction, the District will not be able to recover the value of investment or collateral securities that are in the possession of an outside party. All financial institutions and broker/dealers who desire to become qualified for investment transactions with the District must meet a set of prescribed standards and be periodically reviewed.

Credit Risk is addressed by the District's investment policy by the requirements that all investments are authorized by Ohio Revised Code and that portfolio be diversified both by types of investment and issuer. All investments of the District are registered and carry a rating AAA by Standard & Poor's.

East Cleveland City School District

Notes To Basic Financial Statements (continued)

For the Fiscal Year Ended June 30, 2006

Note 4: Deposits and Investments (continued)

B. Investments (continued)

Concentration of Credit Risk is defined by the Governmental Accounting Standards Board as five percent or more in the securities of a single issuer. The District's investment policy requires diversification of the portfolio but does not indicate specific percentage allocations.

<u>Investment Issuer</u>	<u>Percentage of Investments</u>
Federal National Mortgage Association Notes	7.76%
Repurchase Agreements	9.71
STAROhio	25.50
Federal Home Loan Mortgage Corp. Notes	10.68
Federal Home Loan Bank Cons. Bonds	5.18
Federal National Mortgage Assoc. Bonds	1.94
Money Market Mutual Funds	39.22

Note 5: Property Taxes

Property taxes are levied and assessed on a calendar year basis, while the School District's fiscal year runs from July through June. First-half tax distributions are received by the School District in the second-half of the fiscal year. Second-half tax distributions occur in the first-half of the following fiscal year.

Property taxes include amounts levied against all real, public utility and tangible personal (used in business) property located in the School District. Property tax revenue received during calendar 2006 for real and public utility property taxes represents collections of calendar 2005 taxes. Property tax payments received during calendar 2006 for tangible personal property (other than public utility property) is for calendar 2006 taxes.

2006 real property taxes are levied after April 1, 2006, on the assessed value as of January 1, 2006, the lien date. Assessed values are established by State law at thirty-five percent of appraised market value.

Public utility tangible personal property currently is assessed at varying percentages of true value; public utility real property is assessed at thirty-five percent of true value. 2006 public utility property taxes became a lien December 31, 2005, are levied after April 1, 2006 and are collected in 2006 with real property taxes.

2006 tangible personal property taxes are levied after April 1, 2005, on the value as of December 31, 2005. Collections are made in 2006. Tangible personal property assessments are twenty-five percent of true value.

East Cleveland City School District

Notes To Basic Financial Statements (continued)

For the Fiscal Year Ended June 30, 2006

Note 5: Property Taxes (continued)

The assessed values upon which property tax revenues were based are as follows:

	<u>Amount</u>
Agricultural/Residential and Other Real Estate	\$ 238,775,190
Public Utility Personal	12,726,920
Tangible Personal Property	<u>15,222,620</u>
Total	<u>\$ 266,724,730</u>
Tax rate per \$1,000 of assessed valuation	\$ 92.40

Real property taxes are payable annually or semi-annually. If paid annually, payment is due December 31; if paid semi-annually, the first payment is due December 31 with the remainder payable by June 20. Under certain circumstances, state statute permits alternate payment dates to be established.

Tangible personal property taxes paid by multi-county taxpayers are due September 20. Single county taxpayers may pay annually or semi-annually. If paid annually, payment is due April 30; if paid semi-annually, the first payment is due April 30, with the remainder payable by September 20. Tangible personal property taxes paid by April 30 are usually received by the School District prior to June 30. This year, the June 2006 tangible personal property tax settlement was not received until July 2006.

The School District receives property taxes from Cuyahoga County. The County Auditor periodically advances to the School District its portion of the taxes collected. Second-half real property tax payments collected by the County by June 30, 2006, are available for advance to finance fiscal year 2006 operations. The amount available to be advanced can vary based on the date the tax bills are sent.

Note 6: Long-Term Obligations

The changes in the long-term obligations of the School District for the year ended June 30, 2006 are as follows:

	<u>Balance June 30, 2005</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance June 30, 2006</u>
Governmental Activities:				
<u>General Obligation Bonds</u>				
Classroom Facilities Bonds				
2003 Issue 5.017% due 12/1/2020	\$ <u>8,220,000</u>	\$ <u>-</u>	\$ <u>(440,000)</u>	\$ <u>7,780,000</u>

The general obligation bond is paid from the Debt Service Fund. The primary source of repayment for the bond is operating revenues and property taxes.

East Cleveland City School District

Notes To Basic Financial Statements (continued)

For the Fiscal Year Ended June 30, 2006

Note 6: Long-Term Obligations (continued)

Principal and interest requirements to retire the long-term debt obligation outstanding at June 30, 2006 were as follows:

<u>Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2007	\$ 460,000	\$ 333,468	\$ 793,468
2008	475,000	314,530	789,530
2009	495,000	294,521	789,521
2010	234,098	565,152	799,250
2011	221,471	577,779	799,250
2012-2016	2,434,147	1,511,728	3,945,875
2017-2021	<u>3,460,284</u>	<u>449,250</u>	<u>3,909,534</u>
Totals	\$ <u>7,780,000</u>	\$ <u>4,046,428</u>	\$ <u>11,826,428</u>

Note 7: Defined Benefit Retirement Plans

A. School Employees Retirement System

The East Cleveland City School District contributes to the School Employee Retirement System (SERS), a cost-sharing multiple-employer defined benefit pension plan. SERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Authority to establish and amend benefits is provided by State statute per Chapter 3309 of the Ohio Revised Code. SERS issues a publicly available, stand-alone financial report that includes financial statements and required supplementary information. That report may be obtained by writing to SERS, 300 East Broad Street, Suite 100, Columbus, Ohio 43215-3476.

Plan members are required to contribute 10 percent of their annual covered salary and the School District is required to contribute at an actuarially determined rate. The current rate is 14 percent of annual covered payroll. A portion of the School District's contributions is used to fund pension obligations with the remainder being used to fund health care benefits; for fiscal year 2006, 10.58 percent of annual covered salary was the portion used to fund pension obligations. The contribution requirements of plan members and employers are established and may be amended, up to statutory maximum amounts, by the SERS' Retirement Board. The School District's contributions to SERS for the fiscal years ended June 30, 2006, 2005, and 2004 were \$938,243, \$969,989, and \$1,115,499, respectively; 100 percent has been contributed for fiscal year 2006, and 100 percent for fiscal years 2005 and 2004.

East Cleveland City School District

Notes To Basic Financial Statements (continued)

For the Fiscal Year Ended June 30, 2006

Note 7: Defined Benefit Retirement Plans (continued)

B. State Teachers Retirement System

The East Cleveland City School District contributes to the State Teachers Retirement System of Ohio (STRS Ohio), a cost-sharing multiple employer public employee retirement system. Benefits are established by Chapter 3307 of the Ohio Revised Code. STRS Ohio issues a stand-alone financial report. The report may be obtained by writing to STRS Ohio, 275 East Broad Street, Columbus, Ohio 43215-3771 or by calling toll-free 1-888-227-7877, or by visiting the STRS Ohio Web site at www.strsoh.org.

New members have a choice of three retirement plans, a Defined Benefit (DB) Plan, a Defined Contribution (DC) Plan, and a Combined Plan. The DB plan offers an annual retirement allowance based on final average salary times a percentage that varies based on years of service, or an allowance based on member contributions and earned interest matched by STRS Ohio funds divided by an actuarially determined annuity factor. The DC Plan allows members to place all their member contributions and employer contributions equal to 10.5 percent of earned compensation among various investment choices. Investment decisions are made by the member. A member is eligible to receive a retirement benefit at age 50 and termination of employment. The Combined Plan offers features of both the DC Plan and the DB Plan. In the Combined Plan, member contributions are invested by the member, and employer contributions are used to fund the defined benefit payment at a reduced level from the regular DB Plan. DC and Combined Plan members will transfer to the Defined Benefit Plan during their fifth year of membership unless they permanently select the DC or Combined Plan.

A DB or Combined Plan member with five or more years credited service who becomes disabled may qualify for a disability benefit. Eligible spouses and dependents of these active members who die before retirement may qualify for survivor benefits. Members in the DC Plan who become disabled are entitled only to their account balance. If a member dies before retirement benefits begin, the member's designated beneficiary is entitled to receive the member's account balance.

Plan members are required to contribute 10 percent of their annual covered salaries and the District is required to contribute 14 percent. A portion of the District's contribution is used to fund pension obligations with the remainder being used to fund health care benefits. For fiscal year 2006, 13 percent of annual covered salary was the portion used to fund pension obligations. Contribution rates are established by the State Teachers Retirement Board, upon recommendation of its consulting actuary, not to exceed statutory maximum rates of 10 percent for members and 14 percent for employers. Chapter 3307 of the Ohio Revised Code provides statutory authority for member and employee contributions.

The School District's required contributions for pension obligations to STRS Ohio for the fiscal years ended June 30, 2006, 2005, and 2004 were \$3,046,238, \$3,148,691, and \$3,325,987, respectively; 100 percent has been contributed for fiscal year 2006, and 100 percent for fiscal years 2005 and 2004.

East Cleveland City School District

Notes To Basic Financial Statements (continued)

For the Fiscal Year Ended June 30, 2006

Note 8: Postemployment Benefits

The School District provides comprehensive health care benefits to retired teachers and their dependents through the State Teachers Retirement System (STRS Ohio), and to retired non-certified employees and their dependents through the School Employees Retirement System (SERS). Benefits include hospitalization, physicians' fees, prescription drugs and reimbursement of monthly Medicare premiums. Benefit provisions and the obligations to contribute are established by the Systems based on authority granted by State statute. Both systems are on a pay-as-you-go basis.

All STRS Ohio retirees who participated in the DB or Combined Plans and their dependents are eligible for health care coverage. The STRS Ohio Board has statutory authority over how much, if any, of the health care costs will be absorbed by STRS Ohio. All benefit recipients pay a portion of the health care cost in the form of a monthly premium. By law, the cost of coverage paid from STRS Ohio funds is included in the employer contribution rate, currently 14 percent of covered payroll. For the fiscal year ended June 30, 2006, the STRS Board allocated employer contributions equal to 1 percent of covered payroll to the Health Care Stabilization Fund. For the School District, this amount equaled \$234,326 for fiscal year 2006.

STRS Ohio pays health care benefits from the Health Care Stabilization Fund. At June 30, 2006 the balance in the Fund was \$3.5 billion. For the fiscal year ended June 30, 2006 net health care costs paid by STRS Ohio were \$282,743,000 and STRS had 119,184 eligible benefit recipients.

For SERS, coverage is made available to service retirees with ten or more fiscal years of qualifying service credit, and to disability and survivor benefit recipients. All retirees and beneficiaries are required to pay a portion of their premium for health care. The portion is based on years of service, Medicare eligibility, and retirement status.

After the allocation for basic benefits, the remainder of the employer's 14 percent contribution is allocated to providing health care benefits. For the fiscal year ended June 30, 2006, employer contributions to fund health care benefits were 3.42 percent of covered payroll, compared to 3.43 percent of covered payroll for fiscal year 2005. In addition, SERS levies a surcharge to fund health care benefits equal to 14 percent of the difference between a minimum pay and the member's pay, pro-rated for partial service credit. For fiscal year 2006, the minimum pay was established at \$35,800. However, the surcharge is capped at two percent of each employer's SERS salaries. For the School District, the amount contributed to fund health care benefits, including the surcharge, during the 2006 fiscal year equaled \$232,307.

The surcharge, added to the unallocated portion of the 14 percent employer contribution rate, provides for maintenance of the asset target level for the health care fund. The target level for the health care reserve is 150 percent of the projected claims less premium contributions for the next fiscal year. Expenses for health care for the fiscal year ended June 30, 2006, were \$158,751,207. At June 30, 2006, SERS had net assets available for payment of health care benefits of \$295.6 million. SERS has approximately 59,492 participants eligible to receive health care benefits.

East Cleveland City School District

Notes To Basic Financial Statements (continued)

For the Fiscal Year Ended June 30, 2006

Note 9: Health Care Benefits

The School District provides life insurance and accidental death and dismemberment insurance in the amount of one times their salary for teachers, \$30,000 for classified employees and part-time employees, and one and one-half times their salaries for administrators. The insurance is provided through Medical Life Insurance Company.

The School District also provides medical/surgical and dental benefits primarily through Medical Mutual to all eligible employees.

Note 10: Set Asides

The School District is required by State statute to annually set aside in the general fund an amount based on a statutory formula 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. In prior fiscal years, the School District was also required to set aside money for budget stabilization.

The following cash basis information identifies the changes in fund balance reserves for textbooks and capital improvements during fiscal year 2006. Disclosure of this information is required by State Statute.

	<u>Textbooks</u>	<u>Capital Improvements</u>	<u>Total</u>
Balance June 30, 2005	\$ 977,204	\$ (8,240,174)	\$ (7,262,970)
Current Year Set Aside Requirement	723,789	723,789	1,447,578
Offsets		(124,203)	(124,203)
Qualifying Expenditures	<u>(602,072)</u>	<u>(63,338)</u>	<u>(665,410)</u>
Balance June 30, 2006	\$ <u>1,098,921</u>	\$ <u>(7,703,926)</u>	\$ <u>(6,605,005)</u>
Set-Aside Balance Carried Forward to Future Fiscal Years	\$ <u>1,098,921</u>	\$ <u>(7,703,926)</u>	\$ <u>(6,605,005)</u>
Set-Aside Reserve Balances as of June 30, 2006	\$ <u>1,098,921</u>	\$ <u>-</u>	\$ <u>1,098,921</u>

In the prior year, the School District had qualifying disbursements that reduced the capital improvements set-aside amounts below zero. The extra amount is used to reduce the current and future set-aside requirements. The total reserve balance for the two set-asides at the end of the fiscal year was \$1,098,921.

East Cleveland City School District

Notes To Basic Financial Statements (continued)

For the Fiscal Year Ended June 30, 2006

Note 11: Interfund Transactions

A. Advances for all funds for June 30, 2006:

	Advances In			
	General Fund	Nonmajor Governmental	Trust Fund	Total
Advances Out:				
General Fund	\$ -	\$ 2,032,796	\$ 102	\$ 2,032,898
Nonmajor Governmental Funds	<u>2,050,976</u>	<u>-</u>	<u>-</u>	<u>2,050,976</u>
	<u>\$ 2,050,976</u>	<u>\$ 2,032,796</u>	<u>\$ 102</u>	<u>\$ 4,083,874</u>

B. Operating transfers for all funds for June 30, 2006:

	Transfer In					Total
	Non-major Governmental	Classroom Facilities	Nonmajor Enterprise	Internal Service	Trust Fund	
Transfer Out:						
General Fund	\$ <u>650,319</u>	\$ <u>-</u>	\$ <u>75,000</u>	\$ <u>12</u>	\$ <u>11</u>	\$ <u>725,342</u>

Transfers from the General Fund to the Agency Funds in the amount of \$14,591 are not reflected in the above table. The accompanying financial statements only reflect the portion(s) of the transfers related to governmental, proprietary, and trust funds. Consequently, differences between the above table and the financial statements may exist.

Note 12: Risk Management

A. Property and Liability

The School District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees, and natural disasters. During fiscal year 2006, the School District contracted with Nationwide for property insurance of \$85,946,200, fleet insurance of \$1,000,000, and liability coverage of \$5,000,000 with a \$5,000 deductible.

Professional liability is protected by the Nationwide Insurance Company. General liability is protected with Nationwide Insurance Company with a \$7,000,000 annual aggregate/\$1,000,000 single occurrence limit and a \$5,000 deductible. The bus fleet is also covered by \$1,000,000 single occurrence limit with an additional \$2,000,000 umbrella policy through Nationwide Insurance Company.

Settled claims have not exceeded commercial coverage in any of the past three years. There was no significant reduction in coverage from last year.

East Cleveland City School District

Notes To Basic Financial Statements (continued)

For the Fiscal Year Ended June 30, 2006

Note 12: Risk Management (continued)

B. Worker's Compensation

The School District participates in a group rating plan for workers' compensation as established under Section 4123.29 of the Ohio Revised Code. The Ohio School Boards Association Workers' Compensation Group Rating Plan (Plan) was established through the Ohio School Boards Association (OSBA) as an insurance purchasing pool.

The Plan's business and affairs are conducted by a three member Board of Directors consisting of the President, the President-Elect, and the Immediate Past President of the OSBA. The Executive Director of the OSBA, or his designee, serves as coordinator of the Plan. Each year, the participants pay an enrollment fee to the Plan to cover the costs of administering the program.

Note 13: Jointly Governed Organization

A. Lakeshore Northeast Ohio Computer Association

The Lakeshore Northeast Ohio Computer Association (LNOCA) is a jointly governed computer service bureau owned and operated by sixteen school districts. The primary function of LNOCA is to provide data services to the sixteen school districts. Major areas of service provided by LNOCA include accounting, payroll, inventory, career guidance, student tracking, pupil scheduling, attendance and grade reporting. Each school is represented on the LNOCA Board of Directors by its superintendent. Each year, the Board of Directors elects a Chairman, a Vice Chairman, and a Recording Secretary. The Treasurer of the fiscal agent is a nonvoting, ex-officio member of the Board of Directors. The Cuyahoga County Educational Service Center serves as the fiscal agent of LNOCA. Each school district supports LNOCA based upon a per pupil charge dependent upon the software packages used. In fiscal year 2006, the School District paid \$52,062 to LNOCA. Financial information can be obtained by contacting LNOCA, 5700 West Canal Road, Valley View, OH 44125.

B. Ohio Schools Council Association

The Ohio Schools Council Association (Council) is a jointly governed organization among 91 school districts. The jointly governed organization was formed to purchase quality products and services at the lowest possible cost to the member districts. Each district supports the Council by paying an annual participation fee. The Council's Board consists of seven superintendents of the participating districts whose term rotates every year. The degree of control exercised by any school district is limited to its representation on the Board. In fiscal year 2006, the School District paid \$825,759 to the Council. Financial information can be obtained by contacting Dr. David A. Cottrell, the Executive Secretary/Treasurer of the Ohio School Council at 6133 Rockside Rd., Suite 10, Independence, Ohio 44131.

East Cleveland City School District

Notes To Basic Financial Statements (continued)

For the Fiscal Year Ended June 30, 2006

Note 13: Jointly Governed Organization (continued)

B. Ohio Schools Council Association (continued)

The School District participates in the Council's electric purchase program, which was implemented during fiscal year 1998. The electric purchase program allows school districts to purchase electricity at reduced rates, if the school districts will commit to participating for an eight-year period. The participants make monthly payments based on estimated usage. Each June these estimated payments are compared to their actual usage for the year and any necessary adjustments are made.

Energy Acquisition Corporation, a non-profit corporation with a self-appointing board issued \$119,140,000 in debt, in fiscal year 1999, to purchase eight years of electricity from Cleveland Electric Illuminating Company (CEI) for the participants. The participating school districts are not obligated in any manner for this debt. If a participating school district terminates its agreement, the district is required to repay the savings to CEI and CEI will refund the remaining prepayment related to that participant to Energy Acquisition Corporation.

Note 14: Related Organization

The East Cleveland Public Library is a distinct political subdivision of the State of Ohio created under Chapter 3375 of the Ohio Revised Code. The Library is governed by a Board of Trustees appointed by the East Cleveland City School District Board of Education. The Board of Trustees possesses its own contracting and budgeting authority, hires and fires personnel and does not depend on the School District for operational subsidies. Although the School District does serve as the taxing authority and may issue tax related debt on behalf of the Library, its role is limited to a ministerial function. The determination to request approval of a tax, the rate and the purpose are discretionary decisions made solely by the Board of Trustees.

Note 15: Public Entity Risk Pool

The School District participates in the Ohio School Boards Association Workers' Compensation Group Rating Plan (GRP), an insurance pool, as established through Acordia under Section 4123.29 of the Ohio Revised Code. Each year, the participating school districts pay an enrollment fee to the GRP to cover the costs of administering the program.

East Cleveland City School District

Notes To Basic Financial Statements (continued)

For the Fiscal Year Ended June 30, 2006

Note 16: Contingencies/Pending Litigation

A. Grants

The School District received financial assistance from federal and state agencies in the form of grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and are subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the general fund or other applicable funds. However, in the opinion of management, any such disallowed claims will not have a material adverse effect on the overall financial position of the School District at June 30, 2006.

B. Litigation

The School District is party to legal proceedings. The School District is of the opinion that ultimate disposition of claims will not have a material effect, if any, on the financial condition of the School District.

Note 17: Accountability and Compliance

A. Accountability

At June 30, 2006, no funds had a deficit fund balance when reported on a cash basis.

B. Compliance

Ohio Administrative Code, Section 117-2-03 (B), requires the School District to prepare its annual financial report in accordance with generally accepted accounting principles. However, the School District prepared its financial statements on a modified cash basis, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. The accompanying financial statements omit assets, liabilities, net assets/fund balances, and disclosures that, while material, cannot be determined at this time. The School District can be fined and various other administrative remedies may be taken against the School District.

Note 18: Fiscal Emergency

In accordance with Ohio Revised Code Chapter 3316, the School District was placed under fiscal emergency by the Auditor of State in March of 2003. The declaration of fiscal emergency results from spending exceeding revenues, relying on carryover cash balances from prior years, and borrowing to finance recent deficits. The financial operation of the School District has in part been turned over to the Financial Planning and Supervision Commission. This commission is comprised of five members including the Superintendent of Public Instruction and the School Management Assistance Assistant Director.

**EAST CLEVELAND CITY SCHOOL DISTRICT
 CUYAHOGA COUNTY
 SCHEDULE OF FEDERAL AWARDS RECEIPTS AND EXPENDITURES
 FOR THE YEAR ENDED JUNE 30, 2006**

Federal Grantor/ Pass Through Grantor Program Title	Federal CFDA Number	Receipts	Non-Cash Receipts	Disbursements	Non-Cash Disbursements
<u>U.S. DEPARTMENT OF EDUCATION</u>					
<i>Passed Through Ohio Department of Education:</i>					
Adult Education- State Grant Program	84.002	\$172,079	\$0	\$150,479	\$0
Title 1 Education Consolidation Improvement Act	84.010	4,762,349	0	3,890,544	0
Special Education Cluster:					
Education Handicapped Act - 6B	84.027	1,505,527	0	1,257,161	0
Special Education - Preschool Grant	84.173	37,180	0	17,753	0
Total Special Education Cluster:		<u>1,542,707</u>	<u>0</u>	<u>1,274,914</u>	<u>0</u>
Vocational Education - Basic Grant	84.048	282,795	0	249,148	0
Innovative Educational Program Strategies	84.298	18,171	0	12,747	0
Drug-Free Schools Grant	84.186	100,176	0	88,674	0
21st Century Community Learning Center	84.287	630,867	0	586,580	0
Education Technology State Grants	84.318	201,179	0	222,860	0
Reading First State Grants	84.357	2,082,915	0	1,745,599	0
Comprehensive School Reform Demonstration	84.332	23,502	0	20,364	0
Improving Teacher Quality, Title II-A	84.367	581,319	0	640,639	0
<i>Direct Assistance</i>					
21st Century Community Learning Center	84.287	0	0	13,414	0
Total U.S. Department of Education		<u>10,398,059</u>	<u>0</u>	<u>8,895,962</u>	<u>0</u>
<u>U.S. DEPARTMENT OF AGRICULTURE</u>					
<i>Passed Through Ohio Department of Education:</i>					
Nutrition Cluster:					
Food Distribution Center	10.550	0	15,811	0	15,811
School Breakfast Program	10.553	309,587	0	309,587	0
National School Lunch Program	10.555	983,596	0	983,596	0
Summer Food Service Program for Children	10.559	31,028	0	31,028	0
Total U.S. Department of Agriculture - Nutrition Cluster		<u>1,324,211</u>	<u>15,811</u>	<u>1,324,211</u>	<u>15,811</u>
<u>U.S. DEPARTMENT OF DEFENSE</u>					
<i>Direct Assistance:</i>					
Junior ROTC	12.000	25,333	0	25,333	0
Total Federal Receipts and Expenditures		<u>\$11,747,603</u>	<u>\$15,811</u>	<u>\$10,245,506</u>	<u>\$15,811</u>

The notes are an integral part of this schedule

**EAST CLEVELAND CITY SCHOOL DISTRICT
CUYAHOGA COUNTY
NOTES TO THE SCHEDULE OF FEDERAL AWARDS RECEIPTS AND EXPENDITURES
FOR THE YEAR ENDED JUNE 30, 2006**

NOTE A - SIGNIFICANT ACCOUNTING POLICIES

The accompanying Schedule of Federal Awards Receipts and Expenditures (the Schedule) summarizes the activity of the District's federal awards programs. The Schedule has been prepared on the cash basis of accounting.

NOTE B - CHILD NUTRITION CLUSTER

The District commingles cash receipts from the U.S. Department of Agriculture with similar State grants. When reporting expenditures on this Schedule, the District assumes it expends federal monies first.

NOTE C – FOOD DONATION PROGRAM

Nonmonetary assistance, such as food received from the U.S. Department of Agriculture, is reported in the Schedule at the fair market value of the commodities received and consumed. Cash receipts from the U.S. Department of Agriculture are commingled with State grants. It is assumed federal monies are expended first. At year end the District had no significant food commodities in inventory.

CFDA – Catalog of Federal Domestic Assistance



Mary Taylor, CPA

Auditor of State

INDEPENDENT ACCOUNTANTS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS REQUIRED BY *GOVERNMENT AUDITING STANDARDS*

Board of Education
East Cleveland City School District
Cuyahoga County
14305 Shaw Avenue Modular
East Cleveland, Ohio 44112-2707

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the East Cleveland City School District, Cuyahoga County, Ohio, (the District) as of and for the year ended June 30, 2006, and have issued our report thereon dated November 16, 2010, wherein we noted the District utilized a basis of accounting other than that prescribed by Ohio Administrative Code § 117-2-03(B). We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the Comptroller General of the United States' *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the District's internal control over financial reporting as a basis for designing our audit procedures for expressing our opinions on the financial statements, but not to opine on the effectiveness of the District's internal control over financial reporting. Accordingly, we have not opined on the effectiveness of the District's internal control over financial reporting.

A control deficiency exists when the design or operation of a control does not allow management or employees, in performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the District's ability to initiate, authorize, record, process, or report financial data reliably in accordance with its applicable accounting basis, such that there is more than a remote likelihood that the District's internal control will not prevent or detect a more-than-inconsequential financial statement misstatement.

A material weakness is a significant deficiency, or combination of significant deficiencies resulting in more than a remote likelihood that the District's internal control will not prevent or detect a material financial statement misstatement.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all internal control deficiencies that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider material weaknesses, as defined above. We noted certain matters that we reported to the District's management in a separate letter dated November 16, 2010.

Compliance and Other Matters

As part of reasonably assuring whether the District's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could directly and materially affect the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and accordingly, we do not express an opinion. The results of our tests disclosed an instance of noncompliance or other matter we must report under *Government Auditing Standards* which is described in the accompanying schedule of findings as item 2006-001.

We also noted certain matters not requiring inclusion in this report that we reported to the District's management in a separate letter dated November 16, 2010.

The District's response to the finding identified in our audit is described in the accompanying schedule of findings. We did not audit the District's response and, accordingly, we express no opinion on it.

We intend this report solely for the information and use of management, the Board of Education and federal awarding agencies and pass-through entities, and others within the District. We intend it for no one other than these specified parties.



Mary Taylor, CPA
Auditor of State

November 16, 2010



Mary Taylor, CPA

Auditor of State

INDEPENDENT ACCOUNTANTS' REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR FEDERAL PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

Board of Education
East Cleveland City School District
Cuyahoga County
14305 Shaw Avenue Modular
East Cleveland, Ohio 44112-2707

Compliance

We have audited the compliance of the East Cleveland City School District, Cuyahoga County, Ohio, (the District) with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133, Compliance Supplement* that apply to each of its major federal programs for the year ended June 30, 2006. The summary of auditor's results section of the accompanying schedule of findings identifies the District's major federal programs. The District's management is responsible for complying with the requirements of laws, regulations, contracts, and grants applicable to each major federal program. Our responsibility is to express an opinion on the District's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits included in the Comptroller General of the United States' *Government Auditing Standards*; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to reasonably assure whether noncompliance occurred with the compliance requirements referred to above that could directly and materially affect a major federal program. An audit includes examining, on a test basis, evidence about the District's compliance with those requirements and performing other procedures we considered necessary in the circumstances. We believe our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the District's compliance with those requirements.

In our opinion, the District complied, in all material respects, with the requirements referred to above that apply to each of its major federal programs for the year ended June 30, 2006.

Internal Control Over Compliance

The District's management is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the District's internal control over compliance with requirements that could directly and materially affect a major federal program in order to determine our auditing procedures for the purpose of opining on compliance in accordance with OMB Circular A-133, but not for the purpose of opining on the effectiveness of internal control over compliance. Accordingly, we have not opined on the effectiveness of the District's internal control over compliance.

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

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control over compliance that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

We noted matters involving federal compliance or internal control over federal compliance not requiring inclusion in this report, that we reported to the District's management in a separate letter dated November 16, 2010.

We intend this report solely for the information and use of the Board of Education, management, federal awarding agencies, and pass-through entities. It is not intended for anyone other than these specified parties.



Mary Taylor, CPA
Auditor of State

November 16, 2010

EAST CLEVELAND CITY SCHOOL DISTRICT
 CUYAHOGA COUNTY
 SCHEDULE OF FINDINGS
 OMB CIRCULAR A-133 § .505
 FOR THE FISCAL YEAR ENDED JUNE 30, 2006

SUMMARY OF AUDITOR'S RESULTS		
<i>(d)(1)(i)</i>	Type of Financial Statement Opinion	Unqualified
<i>(d)(1)(ii)</i>	Were there any material control weaknesses reported at the financial statement level (GAGAS)?	No
<i>(d)(1)(ii)</i>	Were there any significant deficiencies in internal control reported at the financial statement level (GAGAS)?	No
<i>(d)(1)(iii)</i>	Was there any reported material noncompliance at the financial statement level (GAGAS)?	Yes
<i>(d)(1)(iv)</i>	Were there any material internal control weaknesses reported for major federal programs?	No
<i>(d)(1)(iv)</i>	Were there any significant deficiencies in internal control reported for major federal programs?	No
<i>(d)(1)(v)</i>	Type of Major Programs' Compliance Opinion	Unqualified
<i>(d)(1)(vi)</i>	Are there any reportable findings under § .510(a)?	No
<i>(d)(1)(vii)</i>	Major Program(list):	CFDA# 84.010 - Title I Grants to Local Education Agencies Nutrition Cluster: CFDA# 10.550 - Food Distribution Program CFDA# 10.555 - School Lunch Program CFDA# 10.553 - School Breakfast Program, CFDA# 10.559 - Summer Food Program
<i>(d)(1)(viii)</i>	Dollar Threshold: Type A/B Programs	Type A: > \$ 300,000 Type B: all others
<i>(d)(1)(ix)</i>	Low Risk Auditee?	No

**EAST CLEVELAND CITY SCHOOL DISTRICT
 CUYAHOGA COUNTY
 SCHEDULE OF FINDINGS
 OMB CIRCULAR A-133 § .505
 FOR THE FISCAL YEAR ENDED JUNE 30, 2006**

**2. FINDINGS RELATED TO THE FINANCIAL STATEMENTS
 REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS**

Material Noncompliance Finding

Finding Number	2006-001
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Payroll was the largest component of the District's expenditures and teacher compensation was the largest expenditure. Employment contracts and union agreements were used to formalize the compensation of District employees. Fee schedules included in these documents were used to clarify the compensation of employees and their projected raises. Each teacher's compensation is based on their education and teaching experience. Step increases given to teachers must be based on teaching experience unless the Board formally approves otherwise on a case by case basis. Step increases given to classified and non-union employees must be based on previous work experience in the District unless the Board formally approves otherwise on a case by case basis.

As reported in the fiscal year 2003 audit report, based on a reconstruction of the payroll records by the District's legal counsel, the District erroneously over and under paid its teachers from fiscal years 2002 through 2007. The total amount of the overpayments was \$588,180 and the total amount of underpayments was \$353,459. This was due to teachers not being compensated in accordance with their education and teaching experience.

The District's legal counsel is negotiating these issues with the employees and the applicable retirement boards and unions. As of July 8, 2009 the updated status of the over / under payments is as follows:

	Fiscal Year						
	2002	2003	2004	2005	2006	2007	Total
Overpaid	\$58,685	\$ 61,449	\$55,621	\$ 61,965	\$ 68,853	\$82,425	\$388,998
Underpaid	6,161	28,260	54,028	38,399	66,987	83,862	277,697

We recommend the District's legal counsel continue to address all discrepancies regarding the over and under payment of teacher compensation. Furthermore, we recommend that each employee's personnel file contain all salary notification forms, signed contracts, college transcripts and payroll deduction forms. Subsequent audits will review if, and how, the District has resolved the issue of the improperly compensated employees. Failure to resolve each individual case may result in possible findings for recovery issued by the Auditor of State.

District's Response

The ECEA payroll audit of overcompensated and undercompensated employees due to salary schedule misplacements is nearing completion. The totals submitted to the auditor's office previously were also submitted to STRS for review and augmentation for STRS purposes. STRS responded with its input on March 5th, 2010. The ECEA and the Board's representatives, led by the Superintendent and ECEA president must now resolve issues related to employee's who have retired during the pendency of this audit. That meeting will occur in July, 2010. Upon completion of the remaining negotiations of the terms and conditions of settling the audit matter between the Board and the ECEA, the auditor's office will receive a summary of all settlement agreements between the Board and the individual ECEA members.

3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS

None

**EAST CLEVELAND CITY SCHOOL DISTRICT
 CUYAHOGA COUNTY
 SCHEDULE OF PRIOR AUDIT FINDINGS
 OMB CIRCULAR A-133 § .505
 FOR THE FISCAL YEAR ENDED JUNE 30, 2006**

Finding Number	Finding Summary	Fully Corrected?	Not corrected, partially corrected, different corrective action taken; finding no longer valid; Explain
2005-001	Teachers were overcompensated or undercompensated based on their education and teaching experience.	No	Repeated in finding 2006-001.
2005-002	Several funds had expenditures plus encumbrances in excess of appropriations at June 30, 2005, contrary to Ohio Rev. Code § 5705.41(B)(D).	Yes	

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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
DECEMBER 21, 2010**