



Dave Yost • Auditor of State



# East Cleveland City School District

For the Fiscal Year Ended June 30, 2007

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# East Cleveland City School District

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# Dave Yost • 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, 2007, 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 accompanying financial statements and notes follow 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, 2007, 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 May 6, 2011 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.

Accounting principles generally accepted in the United States of America require this presentation to include *Management's discussion and analysis and required budgetary comparisons for the General Fund*, as listed in the table of contents, to supplement the basic financial statements. Although this information is not part of the basic financial statements, the Governmental Accounting Standards Board considers it essential for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any other assurance.

We conducted our audit to opine on the financial statements that collectively comprise the District's basic financial statements taken as a whole. The schedule of federal awards receipts and expenditure provides additional information required by the U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the basic financial statements. The schedule of federal awards receipts and expenditure is management's responsibility, and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. This schedule was subject to the auditing procedures we applied to the basic financial statements. We also applied certain additional procedures, including comparing and reconciling this information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, in accordance with auditing standards generally accepted in the United States of America. In our opinion, this information is fairly stated in all material respects in relation to the basic financial statements taken as a whole



**Dave Yost**  
Auditor of State

May 6, 2011

**East Cleveland City School District  
Management's Discussion and Analysis  
For the Fiscal Year Ended June 30, 2007  
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, 2007. 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 2007 are as follows:

- In total, net assets decreased \$4,722,784. Net assets of governmental activities decreased \$4,688,423, which represents a 11.4% decrease from 2006. Net assets of business-type activities decreased \$34,361 or 91.76% from 2006.
- General revenues accounted for \$ 46,508,510 in revenue or 65.6 % of all revenues. Program specific revenues in the form of charges for services and sales, grants and contributions accounted for \$24,409,422 or 34.4% of total revenues of \$70,921,441.
- The District had \$75,609,864 in expenses related to governmental activities; only \$24,409,422 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 \$46,508,510 were inadequate to provide for these programs resulting in a decrease of net assets from \$41,197,459 to \$36,509,036.
- The District had \$30,852 in expenses related to business-type activities. Transfers and advances in the amount of \$3,264 and \$245 added to the current year deficit. Total revenues were not adequate to provide for these programs by \$(34,361) resulting in a decrease to net assets from \$37,445 to \$3,084.
- The District's major governmental funds are the general fund and the classroom facilities capital projects funds fund. The general fund had \$51,373,131 in revenues and other financing sources and \$41,036,834 in expenditures and other financing uses. The general fund's fund balance increased \$10,336,297 from \$10,687,161 to \$21,023,458. The classroom facilities capital projects fund had \$6,119,030 in revenues and other financing sources and \$19,119,520 in expenditures and other financing uses. The classroom facilities capital projects fund balance decreased \$(13,000,490) from \$21,993,573 to \$8,993,083.

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 cash basis of accounting. This basis of accounting is a basis of accounting other than generally accepted accounting principles. Under the District's cash basis of accounting, receipts and disbursements are recorded when cash is received or paid.

As a result of using the 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 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 2007, within the limitations of 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 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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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 only major governmental funds are the General Fund and the Classroom Facilities Capital Project 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  
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**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 2007 and 2006.

**Table 1  
Net Assets**

	<u>Governmental Activities</u>		<u>Business-Type Activities</u>		<u>Total</u>	
	<u>2007</u>	<u>2006</u>	<u>2007</u>	<u>2006</u>	<u>2007</u>	<u>2006</u>
Assets:						
Cash and cash equivalents	\$ 36,509,036	\$ 41,197,459	\$ 3,084	\$ 37,445	\$ 36,512,120	\$ 41,234,904
Total assets	<u>36,509,036</u>	<u>41,197,459</u>	<u>3,084</u>	<u>37,445</u>	<u>36,512,120</u>	<u>41,234,904</u>
Net assets:						
Restricted for:						
Debt service	1,622,009	1,297,987	-	-	1,622,009	1,297,987
Capital projects	8,993,105	21,996,301	-	-	8,993,105	21,996,301
Other purposes	4,804,602	8,314,931	-	-	4,804,602	8,314,931
Unrestricted	<u>21,089,320</u>	<u>9,588,240</u>	<u>3,084</u>	<u>37,445</u>	<u>21,092,404</u>	<u>9,625,685</u>
Total net assets	<u>\$ 36,509,036</u>	<u>\$ 41,197,459</u>	<u>\$ 3,084</u>	<u>\$ 37,445</u>	<u>\$ 36,512,120</u>	<u>\$ 41,234,904</u>

As mentioned previously, net assets of governmental activities decreased \$4,688,423 or 11.38% during 2007. The primary reasons contributing to the decreases in cash balances are as follows:

- General revenues accounted for \$ 46,508,510 in revenue or 65.6 % of all revenues. Program specific revenues in the form of charges for services and sales, grants and contributions accounted for \$24,409,422 or 34.4% of total revenues of \$70,921,441.
- The District had \$75,609,864 in expenses related to governmental activities; only \$24,409,422 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 \$46,508,510 were inadequate to provide for these programs resulting in a decrease of net assets from \$41,197,459 to \$36,509,036.

The net assets of the business-type activities decreased \$34,361 or 91.76%. The primary reasons contributing to the increases in cash balances are as follows:

- The District had \$30,852 in expenses related to business-type activities and transfers and advances of \$3,509 with no revenue to offset those expenses. Total revenues were not adequate to provide for these programs by \$(34,361) resulting in a decrease to net assets from \$37,445 to \$3,084.

Table 2 reflects changes in net assets on a cash basis in fiscal year 2007 and fiscal year 2006 for governmental activities, business-type activities and the total primary government.

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**Table 2  
Changes in Net Assets**

	<u>Governmental Activities</u>		<u>Business-Type Activities</u>		<u>Total</u>	
	<u>2007</u>	<u>2006</u>	<u>2007</u>	<u>2006</u>	<u>2007</u>	<u>2006</u>
<b>Cash Receipts:</b>						
Program cash receipts:						
Charges for services	\$ 2,436,958	\$ 1,939,186	\$ -	\$ -	\$ 2,436,958	\$ 1,939,186
Operating grants	<u>21,972,464</u>	<u>41,169,397</u>	<u>-</u>	<u>160</u>	<u>21,972,464</u>	<u>41,169,557</u>
Total program cash receipts	<u>24,409,422</u>	<u>43,108,583</u>	<u>-</u>	<u>160</u>	<u>24,409,422</u>	<u>43,108,743</u>
General cash receipts:						
Property taxes	11,470,601	12,254,986	-	-	11,470,601	12,254,986
Grants and entitlements	32,471,142	31,602,842	-	-	32,471,142	31,602,842
Investment earnings	1,858,004	847,663	-	-	1,858,004	847,663
Gain on sale of assets	31,147	-	-	-	31,147	3,841
Other	<u>677,616</u>	<u>217,357</u>	<u>-</u>	<u>-</u>	<u>677,616</u>	<u>217,357</u>
Total general cash receipts	46,508,510	44,922,848	-	-	46,508,510	44,922,848
Transfers/Advances	<u>3,509</u>	<u>(89,693)</u>	<u>(3,509)</u>	<u>75,000</u>	<u>-</u>	<u>(14,693)</u>
Total cash receipts	<u>70,921,441</u>	<u>87,941,738</u>	<u>(3,509)</u>	<u>75,160</u>	<u>70,917,932</u>	<u>88,016,898</u>
<b>Cash disbursements:</b>						
Program cash disbursements:						
Instruction:						
Regular	16,264,535	16,499,109	-	-	16,264,535	16,499,109
Adult education	91,933	96,499	-	-	91,933	96,499
Special	10,682,391	10,818,250	-	-	10,682,391	10,818,250
Vocational	1,458,203	1,541,136	-	-	1,458,203	1,541,136
Other	5,013,189	4,606,653	-	-	5,013,189	4,606,653
Support services						
Pupil	2,336,392	2,859,343	-	-	2,336,392	2,859,343
Instructional staff	3,936,823	3,592,968	-	-	3,936,823	3,592,968
Board of education	60,416	40,227	-	-	60,416	40,227
Administration	3,977,903	3,894,040	-	-	3,977,903	3,894,040
Fiscal	1,553,895	983,179	-	-	1,553,895	983,179
Business	541,968	734,656	-	-	541,968	734,656
Operation and maintenance						
– plant	4,912,679	4,830,893	-	-	4,912,679	4,830,893
Pupil transportation	945,624	819,131	-	-	945,624	819,131
Central services	1,970,097	2,062,005	-	-	1,970,097	2,062,005
Food service operations	1,672,335	1,547,862	-	-	1,672,335	1,547,862
Operations of non-instruction services						
Extracurricular activities	80,000	102,259	-	-	80,000	102,259
Facilities acquisition and construction	346,847	323,837	-	-	346,847	323,837
Debt service						
Principal	18,971,166	12,971,383	-	-	18,971,166	12,971,383
Interest and fiscal charges	460,000	440,000	-	-	460,000	440,000
Adult and community education	333,468	351,248	-	-	333,468	351,248
Total cash disbursements	<u>75,609,864</u>	<u>69,114,678</u>	<u>30,852</u>	<u>82,636</u>	<u>75,640,716</u>	<u>69,197,314</u>
Change in net assets	\$ <u>(4,688,423)</u>	\$ <u>18,827,060</u>	\$ <u>(34,361)</u>	\$ <u>(7,476)</u>	\$ <u>(4,722,784)</u>	\$ <u>18,819,584</u>

Net assets of the District's governmental activities decreased by \$4,688,423. Total governmental expenses of \$75,609,864 were primarily offset by program receipts of \$24,409,422 and general receipts and transfers of \$46,512,019. Program revenues supported 32.3% of the total governmental expenses.

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The primary sources of general revenue are from property taxes and grants and entitlements. These two revenue sources represent 62% of total governmental revenue. Property taxes support 15.2 % of total expenses, while grants and entitlements supported 42.9% of total expenses. These two revenue items were not sufficient to fund 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 44.3% and 26.8 % of all governmental disbursements, respectively. Facilities acquisition and construction also represents a significant cost at 25.1%. The next two 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**

	2007		2006	
	<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	\$ 16,264,535	\$ (10,660,643)	\$ 16,499,109	\$ (6,981,030)
Adult education	91,933	(91,933)	96,499	(96,499)
Special	10,682,391	(2,457,574)	10,818,250	(1,003,301)
Vocational	1,458,203	(1,458,203)	1,541,136	(1,539,636)
Other	5,013,189	(5,013,189)	4,606,653	(4,602,612)
Support services:				
Pupil	2,336,392	(2,334,100)	2,859,343	(2,848,784)
Instructional staff	3,936,823	(444,345)	3,592,968	(2,805,970)
Board of education	60,416	(60,416)	40,227	(40,227)
Administration	3,977,903	(3,977,903)	3,894,040	(3,894,040)
Fiscal	1,553,895	(1,553,895)	983,179	(983,179)
Business	541,968	(541,968)	734,656	(734,656)
Operation and maintenance – plant	4,912,679	(4,912,679)	4,830,893	(4,830,893)
Pupil transportation	945,624	(945,624)	819,131	(819,131)
Central	1,970,097	(1,935,518)	2,062,005	(1,984,885)
Food service operations	1,672,335	(1,493,496)	1,547,862	(22,102)
Operations of non-instructional services	80,000	1,403,290	102,259	(67,738)
Extracurricular activities	346,847	(346,847)	323,837	(297,066)
Facilities acquisition and construction	18,971,166	(13,581,931)	12,971,383	8,336,902
Debt service				
Principal	460,000	(460,000)	440,000	(440,000)
Interest and fiscal charges	333,468	(333,468)	351,248	(351,248)
Total cash disbursements	<u>\$ 75,609,864</u>	<u>\$ (51,200,442)</u>	<u>\$ 69,114,678</u>	<u>\$ (26,006,095)</u>

The dependence upon tax revenues during fiscal year 2007 for governmental activities is apparent, as 58.7% of 2007 instruction activities are supported through taxes and other general revenues. For all governmental activities, general revenue support was 61.5% in 2007. The District's taxpayers and intergovernmental funding, as a whole, are by far the primary support for District's students.

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***Business-Type Activities***

Business-type activities include uniform supplies and adult and community education. The uniform supplies operations had no activity for 2007. The adult and community education operations had no revenues in 2007 and expenses and transfers and advances of \$34,361. This resulted in a decrease to net assets for the fiscal year of \$34,361.

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 \$36,443,174, which is less than last year's total of \$41,135,619. In addition, the General fund had an increase of revenue of \$786,462 mainly attributed to an increase in intergovernmental and other revenues. The schedule below indicates the fund balance and the total change in fund balance as of June 30, 2007 and 2006.

	<u>Fund Balance</u> <u>June 30, 2007</u>	<u>Fund Balance</u> <u>June 30, 2006</u>	<u>Increase</u> <u>(Decrease)</u>
General	\$ 21,023,458	\$ 10,687,161	\$ 10,336,297
Classroom Facilities	8,993,083	21,993,573	(13,000,490)
Other Governmental	<u>6,426,633</u>	<u>8,454,885</u>	<u>(2,028,252)</u>
Total	\$ <u>36,443,174</u>	\$ <u>41,135,619</u>	\$ <u>(4,692,445)</u>

The District's general fund balance increased \$10,336,297, due to a continued conservative operating approach whereby spending was far less than revenues received. The table that follows assists in illustrating the financial activities and fund balance of the general fund.

	<u>2007</u> <u>Amount</u>	<u>2006</u> <u>Amount</u>	<u>Percentage</u> <u>Change</u>
<u>Revenues</u>			
Taxes	\$ 10,568,065	\$ 11,304,378	(6.51)%
Interest Earnings	1,140,667	424,442	168.76%
Intergovernmental	33,232,221	32,985,077	.75%
Other Revenue	<u>2,320,624</u>	<u>1,761,218</u>	31.76%
Total	\$ <u>47,261,577</u>	\$ <u>46,475,115</u>	

The property tax revenue decreased \$736,313 due to a decrease in the personal property tax base and an increase in outstanding delinquencies which directly affects the amount of tax revenue collected and distributed by the County. The District anticipates tax collections will be less in fiscal year 2008 than in fiscal year 2007.

Intergovernmental revenue increased \$247,144 or .75% from the prior year. This increase is attributed to an increase in the number of grants the District received in 2007. The increase in investment income is due to an increase in the overall fund balance total throughout the year. The increase in other revenue is attributed to an increase in tuition from the prior year due to larger school foundation payments from the State during fiscal year 2007.

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The table that follows assists in illustrating the expenditures of the general fund.

<u>Expenditures by Object</u>	<u>2007 Amount</u>	<u>2006 Amount</u>	<u>Percentage Change</u>
Instruction	\$ 24,240,101	\$ 22,936,151	5.69%
Support Services	14,067,321	14,417,775	(2.43)%
Capital Outlay	46,414	113,266	(59.02)%
Extracurricular Activities	<u>264,167</u>	<u>244,293</u>	8.13%
Total	\$ <u>38,618,003</u>	\$ <u>37,711,485</u>	

The most significant increase was in the area of instruction. This increase is due to an increase in wages and purchased services.

### **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, tuition and fees, interest and state sources. The final budget for expenditures of \$49,052,226 was sufficient to cover actual expenditures plus other uses of \$43,086,889, by \$5,965,337. Original appropriations were amended to reflect a more accurate estimate of annual expenditures based upon the actual amounts at the time of the amendment.

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, 2007, the District's outstanding debt included \$7,320,000 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, 2007  
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 last passed a continuing operating levy in 2005. 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 25 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 – Cash basis

June 30, 2007

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	<u>Primary Government</u>		<u>Total</u>
	<u>Governmental Activities</u>	<u>Business - Type Activities</u>	
Assets:			
Equity in pooled cash and cash equivalents	\$ <u>36,509,036</u>	\$ <u>3,084</u>	\$ <u>36,512,120</u>
Total assets	<u>36,509,036</u>	<u>3,084</u>	<u>36,512,120</u>
Net assets:			
Restricted for:			
Capital projects	8,993,105	-	8,993,105
Debt Service	1,622,009	-	1,622,009
Other purposes	4,804,602	-	4,804,602
Unrestricted	<u>21,089,320</u>	<u>3,084</u>	<u>21,092,404</u>
Total net assets	\$ <u><u>36,509,036</u></u>	\$ <u><u>3,084</u></u>	\$ <u><u>36,512,120</u></u>

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

# East Cleveland City School District

## Statement of Activities – Cash basis

For The Fiscal Year Ended June 30, 2007

	Cash Disbursements	Program Cash Receipts	
		Charges for Services	Operating Grants and Contributions
Governmental activities:			
Instruction:			
Regular education	\$ 16,264,535	\$ 5,480	\$ 5,598,412
Special education	10,682,391	2,124,083	6,100,734
Adult	91,933	-	-
Vocational education	1,458,203	-	-
Other	5,013,189	-	-
Support services:			
Pupil	2,336,392	2,292	-
Instructional staff	3,936,823	-	3,492,478
Board of education	60,416	-	-
Administration	3,977,903	-	-
Fiscal	1,553,895	-	-
Business	541,968	-	-
Operations and maintenance - plant	4,912,679	-	-
Pupil transportation	945,624	-	-
Central services	1,970,097	-	34,579
Food service operations	1,672,335	109,774	69,065
Operations and non-instructional services	80,000	191,061	1,292,229
Extracurricular activities	346,847	-	-
Facilities acquisition	18,971,166	4,268	5,384,967
Debt service:			
Principal	460,000	-	-
Interest and fiscal charges	333,468	-	-
Total governmental activities	<u>75,609,864</u>	<u>2,436,958</u>	<u>21,972,464</u>
Business-type activities:			
Adult and community education	<u>30,852</u>	<u>-</u>	<u>-</u>
Total business-type activities	<u>30,852</u>	<u>-</u>	<u>-</u>
Totals	\$ <u>75,640,716</u>	\$ <u>2,436,958</u>	\$ <u>21,972,464</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  
Transfers/Advances  
Total general cash receipts and transfers

Change in net assets

Net assets at, beginning of year

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>
\$ (10,660,643)	\$ -	\$ (10,660,643)
(2,457,574)	-	(2,457,574)
(91,933)	-	(91,933)
(1,458,203)	-	(1,458,203)
(5,013,189)	-	(5,013,189)
(2,334,100)	-	(2,334,100)
(444,345)	-	(444,345)
(60,416)	-	(60,416)
(3,977,903)	-	(3,977,903)
(1,553,895)	-	(1,553,895)
(541,968)	-	(541,968)
(4,912,679)	-	(4,912,679)
(945,624)	-	(945,624)
(1,935,518)	-	(1,935,518)
(1,493,496)	-	(1,493,496)
1,403,290	-	1,403,290
(346,847)	-	(346,847)
(13,581,931)	-	(13,581,931)
(460,000)	-	(460,000)
<u>(333,468)</u>	<u>-</u>	<u>(333,468)</u>
<u>(51,200,442)</u>	<u>-</u>	<u>(51,200,442)</u>
<u>-</u>	<u>(30,852)</u>	<u>(30,852)</u>
<u>-</u>	<u>(30,852)</u>	<u>(30,852)</u>
<u>(51,200,442)</u>	<u>(30,852)</u>	<u>(51,231,294)</u>
11,470,601	-	11,470,601
32,471,142	-	32,471,142
1,858,004	-	1,858,004
31,147	-	31,147
<u>677,616</u>	<u>-</u>	<u>677,616</u>
46,508,510	-	46,508,510
<u>3,509</u>	<u>(3,509)</u>	<u>-</u>
<u>46,512,019</u>	<u>(3,509)</u>	<u>46,508,510</u>
(4,688,423)	(34,361)	(4,722,784)
<u>41,197,459</u>	<u>37,445</u>	<u>41,234,904</u>
\$ <u><u>36,509,036</u></u>	\$ <u><u>3,084</u></u>	\$ <u><u>36,512,120</u></u>

# East Cleveland City School District

## Balance Sheet – Cash basis Governmental Funds

June 30, 2007

	<u>General</u>	<u>Classroom Facilities Grant</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
<b>Assets:</b>				
Equity in pooled cash and cash equivalents	\$ <u>21,023,458</u>	\$ <u>8,993,083</u>	\$ <u>6,426,633</u>	\$ <u>36,443,174</u>
Total assets	\$ <u>21,023,458</u>	\$ <u>8,993,083</u>	\$ <u>6,426,633</u>	\$ <u>36,443,174</u>
<b>Fund balances:</b>				
Reserved for encumbrances	\$ 2,050,055	\$ 14,983,969	\$ 1,144,191	\$ 18,178,215
Reserved for textbooks	660,656	-	-	660,656
Unreserved; undesignated (deficit) for:				
General fund	18,312,747	-	-	18,312,747
Special revenue funds	-	-	5,282,442	5,282,442
Capital projects funds	-	<u>(5,990,886)</u>	-	<u>(5,990,886)</u>
Total fund balances	\$ <u>21,023,458</u>	\$ <u>8,993,083</u>	\$ <u>6,426,633</u>	\$ <u>36,443,174</u>

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

## East Cleveland City School District

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

June 30, 2007

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Total Governmental Funds Balances \$ 36,443,174

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.

65,862

Net assets of governmental activities \$ 36,509,036

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 Balances – Cash basis Governmental Funds

For The Fiscal Year Ended June 30, 2007

	General	Classroom Facilities Grant	Other Governmental Funds	Total Governmental Funds
Cash receipts:				
Taxes	\$ 10,568,065	\$ -	\$ 902,536	\$ 11,470,601
Intergovernmental	33,232,221	5,384,967	15,601,294	54,218,482
Tuition and fees	2,124,083	-	-	2,124,083
Earnings on investments	1,140,667	717,337	-	1,858,004
Food service	-	-	109,774	109,774
Extracurricular activities	-	-	26,782	26,782
Classroom materials and fees	5,480	-	-	5,480
Miscellaneous	191,061	16,726	231,960	439,747
Total cash receipts	<u>47,261,577</u>	<u>6,119,030</u>	<u>16,872,346</u>	<u>70,252,953</u>
Cash disbursements:				
Instruction:				
Regular education	11,281,326	-	4,983,209	16,264,535
Special education	6,537,778	-	4,137,197	10,674,975
Adult	-	-	91,933	91,933
Vocational education	1,407,808	-	50,395	1,458,203
Other	5,013,189	-	-	5,013,189
Support Services:				
Pupils	1,631,792	-	704,600	2,336,392
Instructional staff	486,738	-	3,450,085	3,936,823
Board of education	58,208	-	2,208	60,416
Administration	3,341,439	-	636,464	3,977,903
Fiscal services	1,082,592	194,768	276,535	1,553,895
Business	541,968	-	-	541,968
Operations and maintenance - plant	4,277,890	-	634,789	4,912,679
Pupil transportation	771,855	-	173,769	945,624
Central services	1,874,839	-	95,258	1,970,097
Food service operations	-	-	1,659,591	1,659,591
Operations of non-instructional services	-	-	80,000	80,000
Extracurricular activities:				
Academic and subject oriented	41,639	-	745	42,384
Sports oriented	170,541	-	106,648	277,189
Co-curricular	51,987	-	-	51,987
Capital Outlay:				
Other facilities acquisition and construction	46,414	18,924,752	12,744	18,983,910
Debt services:				
Principal	-	-	460,000	460,000
Interest and fiscal charges	-	-	333,468	333,468
Total cash disbursements	<u>38,618,003</u>	<u>19,119,520</u>	<u>17,889,638</u>	<u>75,627,161</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 Balances – Cash basis Governmental Funds (continued)

For The Fiscal Year Ended June 30, 2007

	<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>8,643,574</u>	<u>(13,000,490)</u>	<u>(1,017,292)</u>	<u>(5,374,208)</u>
Other financing sources (uses):				
Proceeds from the sale of capital assets	31,147	-	-	31,147
Advances – in	3,432,633	-	2,202,403	5,635,036
Transfers – in	9,792	-	201,000	210,792
Refund of prior year disbursements	637,982	-	9,125	647,107
Advances – out	(2,211,303)	-	(3,423,488)	(5,634,791)
Transfers – out	<u>(207,528)</u>	<u>-</u>	<u>-</u>	<u>(207,528)</u>
Total other financing sources (uses)	<u>1,692,723</u>	<u>-</u>	<u>(1,010,960)</u>	<u>681,763</u>
Net change in fund balance	10,336,297	(13,000,490)	(2,028,252)	(4,692,445)
Fund balance at beginning of year	<u>10,687,161</u>	<u>21,993,573</u>	<u>8,454,885</u>	<u>41,135,619</u>
Fund balance at end of year	\$ <u>21,023,458</u>	\$ <u>8,993,083</u>	\$ <u>6,426,633</u>	\$ <u>36,443,174</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, 2007

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Net Change in Fund Balances – Total Governmental Funds \$ (4,692,445)

*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.

4,022

*Change in Net Assets of Governmental Activities* \$ (4,688,423)

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 – Budget and Actual – Budget Basis – General Fund

For The Fiscal Year Ended June 30, 2007

	Budget		Actual	Variance with
	Original	Final		Final Budget Positive (Negative)
Cash Receipts:				
Taxes	\$ 9,677,475	\$ 10,589,621	\$ 10,568,065	\$ (21,556)
Earnings on investments	1,044,541	1,142,994	1,140,667	(2,327)
Classroom materials and fees	5,018	5,491	5,480	(11)
Tuition and fees	1,945,083	2,128,415	2,124,083	(4,332)
Miscellaneous	174,960	191,451	191,061	(390)
Intergovernmental	30,431,683	33,300,004	33,232,221	(67,783)
Total cash receipts	<u>43,278,760</u>	<u>47,357,976</u>	<u>47,261,577</u>	<u>(96,399)</u>
Cash disbursements:				
Instruction:				
Regular	12,459,237	13,525,002	11,880,201	1,644,801
Special	8,388,251	7,838,039	6,884,839	953,200
Vocational	1,806,278	1,687,799	1,482,542	205,257
Other	6,432,138	6,010,233	5,279,316	730,917
Support service:				
Pupils	2,093,659	1,956,329	1,718,416	237,913
Instructional staff	624,505	583,542	512,577	70,965
Board of education	74,683	69,785	61,298	8,487
Administration	4,287,210	4,005,998	3,518,821	487,177
Fiscal services	1,389,012	1,297,902	1,140,062	157,840
Business	695,369	649,757	570,739	79,018
Operation and maintenance-plant	5,488,717	5,128,694	4,504,984	623,710
Pupil transportation	990,323	925,364	812,829	112,535
Central	2,405,499	2,247,715	1,974,366	273,349
Extracurricular:				
Academic and subject oriented	53,425	49,920	43,849	6,071
Sports oriented	218,812	204,459	179,594	24,865
Co-curricular	66,702	62,327	54,747	7,580
Facilities acquisition and construction:				
Building acquisition and construction	59,551	55,645	48,878	6,767
Total cash disbursements	<u>47,533,371</u>	<u>46,298,510</u>	<u>40,668,058</u>	<u>5,630,452</u>
Total excess of cash receipts over (under) cash disbursements	<u>(4,254,611)</u>	<u>1,059,466</u>	<u>6,593,519</u>	<u>5,534,053</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 – Budget and Actual – Budget Basis – General Fund (continued)

For The Fiscal Year Ended June 30, 2007

	Budget		Actual	Variance with
	Original	Final		Final Budget Positive (Negative)
Other financing sources(uses):				
Proceeds from sale of capital assets	28,522	31,211	31,147	(64)
Advances-in	3,143,359	3,439,634	3,432,633	(7,001)
Transfers-in	8,967	9,812	9,792	(20)
Refund of prior year disbursements	584,218	639,283	637,982	(1,301)
Advances-out	(2,694,176)	(2,517,456)	(2,211,303)	306,153
Transfers-out	<u>(252,845)</u>	<u>(236,260)</u>	<u>(207,528)</u>	<u>28,732</u>
Total other financing sources (uses)	<u>818,045</u>	<u>1,366,224</u>	<u>1,692,723</u>	<u>326,499</u>
Net change in fund balance	(3,436,566)	2,425,690	8,286,242	5,860,552
Fund balance at beginning of year	8,671,970	8,671,970	8,671,970	-
Prior year encumbrances appropriated	<u>2,015,191</u>	<u>2,015,191</u>	<u>2,015,191</u>	-
Fund balance at end of year	\$ <u>7,250,595</u>	\$ <u>13,112,851</u>	\$ <u>18,973,403</u>	\$ <u>5,860,552</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 – Cash basis Proprietary Funds

June 30, 2007

---

	<u>Business-Type Activities</u> Enterprise Funds	<u>Governmental Activities</u> Internal Service Funds
Assets:		
Current assets:		
Cash and cash equivalents	\$ <u>3,084</u>	\$ <u>65,862</u>
Total assets	<u>3,084</u>	<u>65,862</u>
Net assets:		
Unrestricted	<u>3,084</u>	<u>65,862</u>
Total net assets	\$ <u><u>3,084</u></u>	\$ <u><u>65,862</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 – Cash basis Proprietary Funds

For the Fiscal Year Ended June 30, 2007

	<u>Business-Type Activities</u>	<u>Governmental Activities</u>
	<u>Enterprise Funds</u>	<u>Internal Service Funds</u>
Operating cash receipts:		
Extracurricular activities	\$ -	\$ 4,268
Miscellaneous	-	7,170
Total operating cash receipts	<u>-</u>	<u>11,438</u>
Operating cash disbursements:		
Salaries and wages	8,678	-
Fringe benefits	4,966	-
Contract services	15,840	7,416
Materials and supplies	1,368	-
Total operating cash disbursements	<u>30,852</u>	<u>7,416</u>
Operating income (loss) before transfers and advances	<u>(30,852)</u>	<u>4,022</u>
Advances – in	8,900	-
Transfers – in	6,528	-
Transfers – out	(9,792)	-
Advances – out	(9,145)	-
Total transfers and advances	<u>(3,509)</u>	<u>-</u>
Change in net assets	(34,361)	4,022
Total net assets at beginning of year	<u>37,445</u>	<u>61,840</u>
Total net assets at end of year	\$ <u>3,084</u>	\$ <u>65,862</u>

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

# East Cleveland City School District

## Statement of Fiduciary Assets and Liabilities – Cash basis Fiduciary Funds

June 30, 2007

---

	<u>Trust Funds</u>	<u>Agency</u>
Assets:		
Equity in pooled cash and cash equivalents	\$ <u>14,017</u>	\$ <u>32,084</u>
Liabilities:		
Due to students	<u>-</u>	\$ <u>32,084</u>
Net assets:		
Held in trust	\$ <u>14,017</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 Assets – Cash basis Fiduciary Funds

For the Fiscal Year Ended June 30, 2007

---

	<u>Trust Funds</u>
Additions:	
Miscellaneous income	\$ <u>4,100</u>
Total additions	<u>4,100</u>
Change in net assets	4,100
Net assets beginning of year	<u>9,917</u>
Net assets end of year	\$ <u><u>14,017</u></u>

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

# East Cleveland City School District

## Notes To Basic Financial Statements

For the Fiscal Year Ended June 30, 2007

---

### **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 170 classified employees and 366 certificated full-time teaching personnel who provide services to 4,069 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. The School District is financially accountable for an organization if the School District appoints a voting majority of the organization's governing board and (1) the School District is able to significantly influence the programs or services performed or provided by the organization; or (2) the School District is legally entitled to or can otherwise access the organization's resources; the School District is legally obligated or has otherwise assumed the responsibility to finance the deficits of, or provide financial support to, the organization; or the School District is obligated for the debt of the organization. The School District is also financially accountable for any 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. Component units also include legally separate, tax-exempt entities whose resources are for the direct benefit of the School District, are accessible to the School District and are significant in amount to the School District. 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, 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.

# East Cleveland City School District

## Notes To Basic Financial Statements

For the Fiscal Year Ended June 30, 2007

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### **Note 2: Summary of Significant Accounting Policies**

As discussed further in Note 2.C, these financial statements are presented on a *cash basis* of accounting. This *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 *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 *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. Following are the more significant of the School District's accounting policies.

#### **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. 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.



# East Cleveland City School District

## Notes To Basic Financial Statements

For the Fiscal Year Ended June 30, 2007

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### **Note 2: Summary of Significant Accounting Policies (continued)**

#### **A. Fund Accounting (continued)**

##### *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* – Enterprise funds may be used to account for any activity for which a fee is charged to external users for goods or services. The District has three enterprise funds to account for uniform supplies and adult and community education.

*Internal Service Funds* – 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.

##### *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 has no trust funds. 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. Basis of Presentation**

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 activity of the internal service fund(s) is eliminated to avoid "doubling up" receipts and disbursements. The statements distinguish between those activities of the School District that are governmental in nature and those that are considered business-type activities. Governmental activities generally are financed through taxes, intergovernmental receipts or other nonexchange transactions. Business-type activities are financed in whole or in part by fees charged to external parties for goods or services.

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

# East Cleveland City School District

## Notes To Basic Financial Statements

For the Fiscal Year Ended June 30, 2007

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### **Note 2: Summary of Significant Accounting Policies (continued)**

#### **B. Basis of Presentation (continued)**

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 statement of activities compares disbursements with program receipts for each function or program of the School District's governmental and business-type activities. Disbursements are reported by function. A function is a group of related activities designed to accomplish a major service or regulatory program for which the government is responsible. Program receipts include charges paid by the recipient of the program's goods or services, grants and contributions restricted to meeting the operational or capital requirements of a particular program, and receipts of interest earned on grants that are required to be used to support a particular program. General receipts are all receipts not classified as program receipts, with certain limited exceptions. The comparison of direct disbursements with program receipts identifies the extent to which each governmental function is self-financing on a cash basis or draws from the School District's general receipts.

#### *Fund Financial Statements*

During the fiscal year, the School District segregates transactions related to certain School District functions or activities in separate funds in order to aid financial management and to demonstrate legal compliance. 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. Fiduciary funds are reported by fund type.

Proprietary fund statements distinguish operating transactions from non-operating transactions. Operating receipts generally result from exchange transactions such as charges for services directly relating to the fund's principal services. Operating disbursements include costs of sales and services and administrative costs. The fund statements report all other receipts and disbursements as non-operating.

#### **C. Basis of Accounting**

The School District's financial statements are prepared using the 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 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.

# East Cleveland City School District

## Notes To Basic Financial Statements

For the Fiscal Year Ended June 30, 2007

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### **Note 2: Summary of Significant Accounting Policies (continued)**

#### **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.

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 2007, investments were limited to a Key Money Market Mutual Fund and STAR Ohio, 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 cost, except for the money market mutual fund and STAR Ohio. The School District's money market mutual fund investment is recorded at the amount reported by Key Bank at June 30, 2007.

# East Cleveland City School District

## Notes To Basic Financial Statements

For the Fiscal Year Ended June 30, 2007

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### **Note 2: Summary of Significant Accounting Policies (continued)**

#### **E. Cash and Investments (continued)**

The School District has invested funds in the State Treasury Assets Reserve (STAR Ohio) during fiscal year 2007. STAR Ohio is an investment pool managed by the State Treasurer's Office which allows governments within the State to pool their funds for investment purposes. STAR Ohio 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 STAR Ohio are valued at STAR Ohio's share price which is the price the investment could be sold for on June 30, 2007.

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 2007 amounted to \$1,140,667, of this amount approximately \$267,049 was assigned from other funds.

#### **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 disbursements 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 Receivables/Payables**

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.

# East Cleveland City School District

Notes To Basic Financial Statements (continued)

For the Fiscal Year Ended June 30, 2007

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## **Note 2: Summary of Significant Accounting Policies (continued)**

### **K. Long-Term Obligations**

The District's 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 cash basis of accounting.

### **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 and textbooks.

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. Interfund Transactions**

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. Subsidies 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 proprietary funds.

# East Cleveland City School District

Notes To Basic Financial Statements (continued)

For the Fiscal Year Ended June 30, 2007

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## **Note 2: Summary of Significant Accounting Policies (continued)**

### **O. Interfund Transactions (continued)**

Repayments from funds responsible for particular cash disbursements to the funds that initially paid for them are not presented on the financial statements.

### **P. 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 2007.

### **Q. 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 cash basis is outstanding year end encumbrances, which are treated as cash disbursement (budgetary basis) rather than as a reservation of fund balance (cash basis). The encumbrances outstanding at year end (budgetary basis) amounted to \$2,050,055 for the General Fund.

## **Note 4: Deposits and Investments**

Monies held by the School District are classified by State statute into three categories.

Active monies are public monies determined to be necessary to meet current demands upon the School District treasury. Active 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 has identified as not required for use within the current five 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.

# East Cleveland City School District

Notes To Basic Financial Statements (continued)

For the Fiscal Year Ended June 30, 2007

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## **Note 4: Deposits and Investments (continued)**

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

Interim monies held by the School District can be deposited or invested in the following securities:

1. United States Treasury bills, bonds, notes, 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 obligation or security 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 the market value of the securities subject to the repurchase agreement must exceed the principal value of the agreement by at least 2 percent and be marked to market daily, and the term of the agreement must not exceed thirty days;
4. Bonds and other obligations of the State of Ohio or Ohio local governments;
5. Time certificates of deposit or savings or deposit accounts including, but not limited to, passbook accounts;
6. No-load money market mutual funds consisting exclusively of obligations described in division (1) or (2) and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions;
7. The State Treasurer's investment pool (STAR Ohio).
8. Certain banker's acceptance and commercial paper (if authorized by the Board of Education and training requirements have been met).

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.

# East Cleveland City School District

Notes To Basic Financial Statements (continued)

For the Fiscal Year Ended June 30, 2007

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## Note 4: Deposits and Investments (continued)

### Deposits

Custodial credit risk for deposits is the risk that in the event of bank failure, the School District will not be able to recover deposits or collateral securities that are in the possession of an outside party. At year end, \$4,585,737 of the School District's bank balance of \$4,885,737 was exposed to custodial credit risk because it was uninsured and collateralized with securities held by the pledging financial institution's trust department or agent, but not in the School District's name.

The School District has no deposit policy for custodial risk beyond the requirements of State statute. Ohio law requires that deposits be either insured or be protected by eligible securities pledged to and deposited either with the School District or a qualified trustee by the financial institution as security for repayment, or by a collateral pool of eligible securities deposited with a qualified trustee and pledged to secure the repayment of all public monies deposited in the financial institution whose market value at all times shall be at least one hundred five percent of the deposits being secured.

### Investments

As of June 30, 2007, the School District had the following investments:

	<u>Carrying Value</u>	<u>Maturity Date</u>
Federal Home Loan Bank	\$ 2,000,000	12/26/2007
Federal Home Loan Mortgage Corporation Note	2,586,135	7/9/2008
Money Market Mutual Fund	19,491,699	Less than 6 months
STAR Ohio	8,695,992	Less than 6 months
Total Investments	<u>\$ 32,773,826</u>	

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 by 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 operating funds primarily in short-term investments.

The Federal Home Loan Mortgage Corporation Notes, Federal Home Loan Bank Notes and the Money Market Mutual Fund carry a rating of AAA by Standard and Poor's. STAR Ohio carries a rating of AAAM by Standard and Poor's. The School District has no investment policy dealing with investment credit risk beyond the requirements in state statutes. Ohio law requires that STAR Ohio maintain the highest rating provided by at least one nationally recognized standard rating service.



# East Cleveland City School District

Notes To Basic Financial Statements (continued)

For the Fiscal Year Ended June 30, 2007

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## **Note 4: Deposits and Investments (continued)**

For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the School District will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The Federal Home Loan Mortgage Corporation Notes and the Federal Home Loan Bank Notes are exposed to custodial credit risk as they are uninsured, unregistered, and held by the counterparty's trust department or agent but not in the School District's name. The School District has no investment policy dealing with investment custodial risk beyond the requirements in ORC 135.14(M)(2) which states, "Payment for investments shall be made only upon the delivery of securities representing such investments to the treasurer, investing authority, or qualified trustee. If the securities transferred are not represented by a certificate, payment shall be made only upon receipt of confirmation of transfer from the custodian by the treasurer, governing board, or qualified trustee."

*Concentration of Credit Risk* is defined by the Government 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 Home Loan Bank	6.1%
Federal Home Loan Mortgage Corporation Note	7.9%
Money Market Mutual Fund	59.5%
STAR Ohio	26.5%

## **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 are received in the first half of the following fiscal year.

Property taxes include amounts levied against all real property, public utility and tangible personal property located in the School District. Property tax receipts received in 2007 for real and public utility property taxes represents collections of the 2006 taxes. Property tax payments received during 2007 for tangible personal property (other than public utility property) is for 2007 taxes.

2007 real property taxes are levied after October 1, 2007 on the assessed values as of January 1, 2007, the lien date. Assessed values for real property taxes are established by State statute at 35 percent of appraised market value. 2007 real property taxes are collected in and intended to finance 2008.

Public utility tangible personal property is assessed at varying percentages of true value; public utility real property is assessed at 35 percent of true value. 2007 public utility property taxes which became a lien on December 31, 2006, are levied after October 1, 2007, and are collected in 2008 with real property taxes.

# East Cleveland City School District

Notes To Basic Financial Statements (continued)

For the Fiscal Year Ended June 30, 2007

**Note 5: Property Taxes (continued)**

2007 tangible property taxes are levied after October 1, 2006, on the value as of December 31, 2006. Collections are made in 2007. Tangible personal property assessments are being phased out – the assessment percentage for all property including inventory for 2007 is 12.5 percent. This will be reduced to 6.25 percent for 2008, and zero for 2009. Payments 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 3, with the remainder due September 20.

The assessed values upon which fiscal year 2007 taxes were collected are:

	2006 Second-Half Collections		2007 First-Half Collections	
	Amount	Percent	Amount	Percent
Agricultural/Residential and Other Real Estate	\$ 238,775,190	89.52%	\$ 263,541,260	91.73%
Public Utility Property	12,726,920	4.77	11,790,800	4.10
Tangible Personal Property	15,222,620	5.71	11,955,511	4.17
Total Assessed Value	\$ 266,724,730	100%	\$ 287,287,571	100%
Tax rate per \$1,000 of assessed valuation	\$ 92.40		\$ 92.10	

Real property taxes are payable annually or semi-annually. If paid annually, payment is due December 31; if paid semiannually, 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.

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, 2007, are available for advance to finance fiscal year 2007 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, 2007 are as follows:

	Balance June 30, 2006	Additions	Deductions	Balance June 30, 2007
Governmental Activities:				
<u>General Obligation Bonds</u>				
Classroom Facilities Bonds				
2003 Issue 5.017% due 12/1/2020	\$ 7,780,000	\$ -	\$ (460,000)	\$ 7,320,000

# East Cleveland City School District

## Notes To Basic Financial Statements (continued)

For the Fiscal Year Ended June 30, 2007

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### Note 6: Long-Term Obligations (continued)

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.

Principal and interest requirements to retire the long-term debt obligation outstanding at June 30, 2007 were as follows:

<u>Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
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	209,147	590,103	799,250
2013-2017	2,850,284	1,079,000	3,929,284
2018-2021	<u>2,835,000</u>	<u>291,875</u>	<u>3,126,875</u>
Totals	\$ <u>7,320,000</u>	\$ <u>3,712,960</u>	\$ <u>11,032,960</u>

### Note 7: Defined Benefit Retirement Plans

#### A. School Employees Retirement System

The East Cleveland City School District contributes to the School Employees 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 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 the SERS, 300 East Broad Street, Suite 100, Columbus, Ohio 43215-3476. It is also posted on the SERS' website at [www.ohsers.org](http://www.ohsers.org) under Employers / Audit Resources.

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 District's contribution is used to fund pension obligations, with the remainder being used to fund health care benefits; for fiscal year 2007, 10.68 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 a statutory maximum amount, by the SERS' Retirement Board. The School District's required contributions for pension obligations to SERS for the fiscal years ended June 30, 2007, 2006 and 2005 were \$ 645,785, \$ 709,044 and \$ 732,342 respectively; 100 percent has been contributed for fiscal year 2007 and 100 percent for fiscal years 2006 and 2005.

## East Cleveland City School District

Notes To Basic Financial Statements (continued)

For the Fiscal Year Ended June 30, 2007

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### **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. STRS Ohio provides retirement and disability benefits to members and death and survivor benefits to beneficiaries. STRS Ohio issues a stand-alone financial report. The report may be obtained by writing to STRS Ohio, 275 E. Broad St., Columbus, OH 43215-3771, by calling (888) 227-7877, or by visiting the STRS Ohio Web site at [www.strsoh.org](http://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 times 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 into an investment account. 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. Existing members with less than five years of service credit as of June 30, 2001, were given the option of making a one time irrevocable decision to transfer their account balances from the existing DB Plan into the DC Plan or the Combined Plan. This option expired on December 31, 2001. Benefits are established by Chapter 3307 of the Ohio Revised Code.

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.

For the fiscal year ended June 30, 2007, plan members were required to contribute 10 percent of their annual covered salaries. The School District was required to contribute 14 percent; 13 percent was the portion used to fund pension obligations. For fiscal year 2006, the portion used to fund pension obligations was also 13 percent. Contribution rates are established by the State Teachers Retirement Board, upon recommendations 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 employer contributions.

The School District's required contributions for pension obligations to STRS Ohio for the fiscal years ended June 30, 2007, 2006, and 2005 were \$ 2,863,911, \$ 3,046,236, and \$ 3,148,693 respectively; 100 percent has been contributed for fiscal year 2007 and 100 percent for fiscal years 2006 and 2005. Contributions to the DC and Combined Plans for fiscal year 2007 were \$ 16,451 made by the School District and \$ 55,863 made by the plan members.

# East Cleveland City School District

Notes To Basic Financial Statements (continued)

For the Fiscal Year Ended June 30, 2007

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## **Note 7: Defined Benefit Retirement Plans (continued)**

### **C. Social Security System**

Effective July 1, 1991, all employees not otherwise covered by the School Employees Retirement System or the State Teachers Retirement System of Ohio have an option to choose Social Security or the School Retirement System. As of June 30, 2007, no members of the Board of Education have elected Social Security.

## **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-certificated 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 funded 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 cost 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, 2007, the STRS Board allocated employer contributions equal to one percent of covered payroll to the Health Care Stabilization Fund. For the School District, this amount equaled \$ 220,301 for fiscal year 2007.

STRS Ohio pays health care benefits from the Health Care Stabilization Fund. At June 30, 2006, (the latest information available) the balance in the Fund was \$ 3.5 billion. For the year ended June 30, 2006, net health care costs paid by STRS 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 health care premium. 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, 2007, employer contributions to fund health care benefits were 3.32 percent of covered payroll, compared to 3.42 percent of covered payroll for fiscal year 2006. 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 2007, 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 2007 fiscal year equaled \$ 288,216.

# East Cleveland City School District

Notes To Basic Financial Statements (continued)

For the Fiscal Year Ended June 30, 2007

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## Note 8: Postemployment Benefits (continued)

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 year. Expenses for health care at June 30, 2006, (the latest information available), 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 59,492 participants eligible to receive benefits.

## 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 2007. Disclosure of this information is required by State Statute.

	<u>Textbooks</u>	<u>Capital Improvements</u>	<u>Total</u>
Balance June 30, 2006	\$ 1,098,921	\$ (7,703,926)	\$ (6,605,005)
Current Year Set Aside Requirement	675,009	675,009	1,350,018
Offsets	-	(121,828)	(121,828)
Qualifying Expenditures	<u>(1,113,274)</u>	<u>(131,932)</u>	<u>(1,245,206)</u>
Balance June 30, 2007	\$ <u>660,656</u>	\$ <u>(7,282,677)</u>	\$ <u>(6,622,021)</u>

# East Cleveland City School District

## Notes To Basic Financial Statements (continued)

For the Fiscal Year Ended June 30, 2007

### Note 10: Set Asides (continued)

	<u>Textbooks</u>	<u>Capital Improvements</u>	<u>Total</u>
Set-Aside Balance Carried Forward to Future Fiscal Years	\$ <u>660,656</u>	\$ <u>(7,282,677)</u>	\$ <u>(6,622,021)</u>
Set-Aside Reserve Balances as of June 30, 2007	\$ <u>660,656</u>	\$ <u>-</u>	\$ <u>660,656</u>

In the prior year, the School District had qualifying offsets 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 \$660,656.

### Note 11: Interfund Transactions

#### A. Advances for all funds for June 30, 2007:

	<u>Advances In</u>			<u>Total</u>
	<u>General Fund</u>	<u>Non-major Governmental</u>	<u>Non-major Enterprise</u>	
Advances Out:				
General Fund	\$ -	\$ 2,202,403	\$ 8,900	\$ 2,211,303
Non Major Governmental Funds	3,423,488	-	-	3,432,488
Non Major Enterprise Funds	<u>9,145</u>	<u>-</u>	<u>-</u>	<u>9,145</u>
Total	<u>\$ 3,432,633</u>	<u>\$ 2,202,403</u>	<u>\$ 8,900</u>	<u>\$ 5,643,936</u>

#### B. Operating transfers for all funds for June 30, 2007:

	<u>Transfer In</u>			<u>Total</u>
	<u>General Fund</u>	<u>Non-major Governmental</u>	<u>Non-major Enterprise</u>	
Transfer Out:				
General Fund	\$ -	\$ 201,000	\$ 6,528	\$ 207,528
Non Major Enterprise	<u>9,792</u>	<u>-</u>	<u>-</u>	<u>9,792</u>
Total	<u>\$ 9,792</u>	<u>\$ 201,000</u>	<u>\$ 6,528</u>	<u>\$ 217,320</u>

Transfers that involve Agency Funds are not reflected in the above table. The accompanying financial statements only reflect the portion(s) of the transfers related to governmental and proprietary funds. Consequently, differences between the above table and the financial statements may exist.

# East Cleveland City School District

Notes To Basic Financial Statements (continued)

For the Fiscal Year Ended June 30, 2007

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## **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 2007, the School District contracted with Nationwide for property insurance of \$102,104,831 with a \$5,000 deductible and fleet insurance of \$1,000,000 with no deductible on liability and a \$250/\$500 collision and comprehensive deductible for physical damage.

Professional liability is protected by the Nationwide Insurance Company in an amount of \$1,000,000 with a \$2,500 deductible for law enforcement liability and a \$1,000 deductible for employees blanket liability. General liability is protected with Nationwide Insurance Company with a \$1,000,000 annual aggregate/\$1,000,000 single occurrence limit and a \$2,500 deductible. The bus fleet is also covered by \$1,000,000 single occurrence limit with an additional \$5,000,000 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.

### **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.



## East Cleveland City School District

Notes To Basic Financial Statements (continued)

For the Fiscal Year Ended June 30, 2007

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### **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 that was formed for the purpose of providing data services to the eleven member districts. Major areas of service provided by LNOCA include accounting, payroll, inventory, career guidance services, handicapped student tracking, pupil scheduling, attendance reporting 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 2007, the School District paid \$105,169 to LNOCA. Financial information can be obtained by contacting the Treasurer of the fiscal agent at 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 2007, the School District paid \$760,424 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.

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.

# East Cleveland City School District

Notes To Basic Financial Statements (continued)

For the Fiscal Year Ended June 30, 2007

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## **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.

## **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, 2007.

### **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, 2007, no funds had a deficit fund balance.

## **East Cleveland City School District**

Notes To Basic Financial Statements (continued)

For the Fiscal Year Ended June 30, 2007

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### **Note 17: Accountability and Compliance (continued)**

#### **B. Compliance**

Ohio Administrative Code, Section 117-2-03 (8), 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 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.

### **Note 19: Subsequent Events**

In August 2007, the District took advantage of favorable interest rates and issued school improvement refunding bonds with an original face value of \$5,645,000. The refunding bonds consisted entirely of current interest serial bonds and were issued with a \$422,721 premium and \$138,463 in issuance costs.

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**EAST CLEVELAND CITY SCHOOL DISTRICT  
CUYAHOGA COUNTY  
SCHEDULE OF FEDERAL AWARDS RECEIPTS AND EXPENDITURES  
FOR THE YEAR ENDED JUNE 30, 2007**

Federal Grantor/ Pass Through Grantor Program Title	Federal CFDA Number	Receipts	Non-Cash Receipts	Disbursements	Non-Cash Disbursements
<b><u>U.S. DEPARTMENT OF EDUCATION</u></b>					
<i>Passed Through Ohio Department of Education:</i>					
Adult Education - Basic Grants to State	84.002	\$50,614	\$0	\$142,906	\$0
Title 1 Grants to Local Educational Agencies	84.010	3,901,135	0	4,334,554	0
Special Education Cluster:					
Special Education Grants to States	84.027	1,204,679	0	1,399,181	0
Special Education - Preschool Grants	84.173	21,574	0	12,448	0
Total Special Education Cluster:		<u>1,226,253</u>	<u>0</u>	<u>1,411,629</u>	<u>0</u>
Vocational Education - Basic Grant	84.048	230,750	0	204,914	0
Innovative Educational Program Strategies	84.298	4,897	0	8,494	0
Drug-Free Schools Grant	84.186	41,546	0	50,657	0
Safe and Drug-Free Schools and Communities	84.184C	0	0	5,358	0
21st Century Community Learning Centers	84.287	555,373	0	474,128	0
Education Technology State Grants	84.318	20,318	0	34,035	0
Reading First State Grants	84.357	1,444,572	0	1,521,527	0
Comprehensive School Reform Demonstration	84.332	5,000	0	958	0
Improving Teacher Quality State Grants	84.367	804,944	0	725,781	0
Total U.S. Department of Education		<u>8,285,402</u>	<u>0</u>	<u>8,914,941</u>	<u>0</u>
<b><u>U.S. DEPARTMENT OF AGRICULTURE</u></b>					
<i>Passed Through Ohio Department of Education:</i>					
Nutrition Cluster:					
School Breakfast Program	10.553	259,225	0	259,225	0
Food Distribution Program	10.550	0	100,833	0	100,833
National School Lunch Program	10.555	994,635	0	994,635	0
Child and Adult Care Food Program	10.558	8,353	0	8,353	0
Summer Food Service Program for Children	10.559	30,017	0	30,017	0
Total U.S. Department of Agriculture - Nutrition Cluster		<u>2,576,107</u>	<u>100,833</u>	<u>1,292,230</u>	<u>100,833</u>
<b>U.S. DEPARTMENT OF DEFENSE</b>					
Direct Assistance:					
Junior ROTC	12.000	28,555	0	28,555	0
<b>Total Federal Assistance</b>		<u>\$10,890,064</u>	<u>\$100,833</u>	<u>\$10,235,726</u>	<u>\$100,833</u>

See the accompanying notes to 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, 2007**

**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



# Dave Yost • 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, 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, 2007, which collectively comprise the District's basic financial statements and have issued our report thereon dated May 6, 2011, 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 the purpose of expressing our opinions on the financial statements, but not for the purpose of opining 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.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. Therefore, we cannot assure that we have identified all deficiencies, significant deficiencies or material weaknesses. However, as described in the accompanying schedule of findings we identified a certain deficiency in internal control over financial reporting, that we consider a material weakness.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, when performing their assigned functions, to prevent, or detect and timely correct misstatements. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and timely corrected. We consider finding 2007-01 described in the accompanying schedule of findings to be a material weakness.

### **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 instances of noncompliance or other matters we must report under *Government Auditing Standards* which are described in the accompanying schedule of findings as items 2007-02 and 2007-03.

We also noted certain matters not requiring inclusion in this report that we reported to the District's management in a separate letter dated May 6, 2011.

The District's responses to the findings identified in our audit are described in the accompanying schedule of findings. We did not audit the District's responses and, accordingly, we express no opinion on them.

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



**Dave Yost**  
Auditor of State

May 6, 2011





# Dave Yost • Auditor of State

## INDEPENDENT ACCOUNTANTS' REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR FEDERAL PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY 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 the major federal program for the year ended June 30, 2007. The summary of auditor's results section of the accompanying schedule of findings identifies the District's major federal program. The District's management is responsible for complying with the requirements of laws, regulations, contracts, and grants applicable to the 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 are applicable to the major federal program for the year ended June 30, 2007.

### 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.

**Internal Control Over Compliance (Continued)**

*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 a matter 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 May 6, 2011.

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



**Dave Yost**  
Auditor of State

May 6, 2011

**EAST CLEVELAND CITY SCHOOL DISTRICT  
 CUYAHOGA COUNTY  
 SCHEDULE OF FINDINGS  
 OMB CIRCULAR A -133 § .505  
 FOR THE FISCAL YEAR ENDED JUNE 30, 2007**

**1. 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)?	Yes
<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 Programs (list):	CFDA # 84.287 – 21 <sup>st</sup> Century Community Learning Centers  CFDA # 84.010 – Title I Grants to Local Educational Agencies  Special Education Cluster: CFDA # 84.027 - Special Education Grants to States CFDA # 84.173 - Special Education Preschool Grants  CFDA # 84.367 - Improving Teacher Quality State Grants
<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, 2007**

<b>2. FINDINGS RELATED TO THE FINANCIAL STATEMENTS          REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS</b>
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(Continued)

<b>Finding Number</b>	<b>2007-01</b>
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**Material Weakness and Finding for Adjustment**

Sound financial reporting is essential to ensure the information provided to the readers of the financial statements is complete and accurate.

During a review of the financial statements we noted the following:

- All homestead and rollback revenues were posted to the General Fund instead of allocating the correct portion to the Bond Retirement and Classroom Facilities Maintenance Funds, as reflected on the County Auditor's real estate property tax settlement sheets. This resulted in an overstatement of tax revenues in the General Fund of \$104,786 and an understatement of tax revenues in the Bond Retirement and Classroom Facilities Maintenance Funds of \$93,044 and \$11,742, respectively. The accompanying financial statements and the District's accounting records reflect the correcting adjustments.
- The District did not eliminate \$791,502 of intra-fund transfers that were reflected as part of the various funds grouped together and reflected in the other governmental fund column of the Statement of Cash Receipts, Disbursements and Changes in Fund Balance - Cash Basis. This resulted in an overstatement of both transfers in and transfers out. In addition, the District failed to eliminate \$2,688,066 of intra-fund transfers within the Classroom Facilities Maintenance which also resulted in an overstatement of both transfers in and transfers out. The accompanying financial statements and the District's accounting records reflect the correcting adjustments.

These weaknesses may result in revenues not being used in accordance with the respective funds requirements and transfers may not reflect actual activity between funds.

We recommend the homestead and rollback revenues be recorded in the required funds as stipulated in the County Auditor's tax settlement sheets. In addition, transfers should be reviewed and intra-fund transfers should be eliminated when preparing the financial statements.

**District's Response**

The District has corrected these material weaknesses and findings for adjustment in a subsequent audit period. Homestead and Rollback are presently being recorded into the respective accounts as stipulated within the Cuyahoga County Auditor's settlement statements. Intra-fund transfers are being eliminated prior to the preparation of the financial statements.

**EAST CLEVELAND CITY SCHOOL DISTRICT  
 CUYAHOGA COUNTY  
 SCHEDULE OF FINDINGS  
 OMB CIRCULAR A-133 § .505  
 FOR THE FISCAL YEAR ENDED JUNE 30, 2007**

<b>2. FINDINGS RELATED TO THE FINANCIAL STATEMENTS        REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS</b>
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(Continued)

<b>Finding Number</b>	<b>2007-02</b>
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**Material Noncompliance Finding**

Ohio Rev. Code Section 117.38 provides that each public office shall file a financial report for each fiscal year. The Auditor of State may prescribe forms by rule or may issue guidelines, or both, for such reports. If the Auditor of State has not prescribed a rule regarding the form for the report, the public office shall submit its report on the form utilized by the public office. Ohio Administrative Code Section 117-2-03 further clarifies the requirements of Ohio Revised Code Section 117.38.

Ohio Administrative Code Section 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, the District prepared its financial statements in accordance with another comprehensive basis of accounting. The accompanying financial statements and notes omit assets, liabilities, fund equities, and disclosures that, while material, cannot be determined at this time. Pursuant to Ohio Revised Code Section 117.38, the District may be fined and subjected to various other administrative remedies for its failure to file the required financial report.

We recommend the District take the necessary steps to ensure the annual financial report is prepared in accordance with accounting principles generally accepted in the United States of America and the Ohio Administrative Code.

**District's Response**

Beginning with the fiscal year ended June 30, 2009, we will prepare our financial statements in accordance with accounting principles generally accepted in the United States of America and the Ohio Administrative Code.

<b>Finding Number</b>	<b>2007-03</b>
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**Material Noncompliance Finding**

Payroll is 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 2006 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. According to the District's legal counsel, as of December 15, 2010, the total amount of overpayments to employees and STRS was \$82,025 and \$19,403 for a total of \$101,428. The total amount underpaid to employees and STRS was \$298,495 and \$45,791 for a total of \$344,286. This was due to teachers not being compensated in accordance with their education and teaching experience.

**EAST CLEVELAND CITY SCHOOL DISTRICT  
 CUYAHOGA COUNTY  
 SCHEDULE OF FINDINGS  
 OMB CIRCULAR A-133 § .505  
 FOR THE FISCAL YEAR ENDED JUNE 30, 2007**

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

(Continued)

<b>Finding Number</b>	<b>2007-03</b>
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**Material Noncompliance Finding (Continued)**

The District's legal counsel has negotiated signed agreements with each employee to repay the overpaid salary and have been reimbursed from STRS. Each employee that was underpaid has entered into an agreement with the District that sets forth the amount underpaid salary and the required contributions to STRS.

We recommend the District 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.

**District's Response**

The District has purchased new personnel file jackets that will provide proper organization in maintaining employees' personnel information. Additionally, the Superintendent has implemented a new procedure for submitting education transcripts to the personnel office. This procedure will result in accuracy in the initial salary placement and salary adjustments in accordance with years of service or attainment of additional education. The annual salary notice is now inclusive of language that places responsibility on the employee to ensure and confirm that their salary placement is correct as stated on said notice from the Human Resources Department.

**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, 2007**

Finding Number	Finding Summary	Fully Corrected?	Not corrected, partially corrected, different corrective action taken; finding no longer valid; Explain
2006-001	Teachers were overcompensated or undercompensated based on their education and teaching experience.	No	Repeated in finding 2007-03.

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# Dave Yost • Auditor of State

**EAST CLEVELAND CITY SCHOOL DISTRICT**

**CUYAHOGA COUNTY**

**CLERK'S CERTIFICATION**

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

*Susan Babbitt*

**CLERK OF THE BUREAU**

**CERTIFIED  
MAY 24, 2011**