



Dave Yost • Auditor of State

**EAST CLEVELAND CITY SCHOOL DISTRICT
CUYAHOGA COUNTY**

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EAST CLEVELAND CITY SCHOOL DISTRICT
CUYAHOGA COUNTY

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Dave Yost • Auditor of State

INDEPENDENT AUDITOR'S REPORT

East Cleveland City School District
Cuyahoga County
1843 Stanwood Road
East Cleveland, Ohio 44112-2707

To the Board of Education:

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the East Cleveland City School District, Cuyahoga County, Ohio (the School), as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the School's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for preparing and fairly presenting these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes designing, implementing, and maintaining internal control relevant to preparing and fairly presenting financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to opine on these financial statements based on our audit. We audited in accordance with auditing standards generally accepted in the United States of America and the financial audit standards in the Comptroller General of the United States' *Government Auditing Standards*. Those standards require us to plan and perform the audit to reasonably assure the financial statements are free from material misstatement.

An audit requires obtaining evidence about financial statement amounts and disclosures. The procedures selected depend on our judgment, including assessing the risks of material financial statement misstatement, whether due to fraud or error. In assessing those risks, we consider internal control relevant to the School's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not to the extent needed to opine on the effectiveness of the School's internal control. Accordingly, we express no opinion. An audit also includes evaluating the appropriateness of management's accounting policies and the reasonableness of their significant accounting estimates, as well as our evaluation of the overall financial statement presentation.

We believe the audit evidence we obtained is sufficient and appropriate to support our audit opinions.

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Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the East Cleveland City School District, Cuyahoga County, Ohio, as of June 30, 2016, and the respective changes in financial position thereof and the respective budgetary comparisons for the General and Tile I Fund thereof for the year then ended in accordance with the accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require this presentation to include *Management's discussion and analysis* and schedules of net pension liabilities and pension contributions 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 applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, consisting of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, to the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not opine or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to opine or provide any other assurance.

Supplementary and Other Information

Our audit was conducted to opine on the School's basic financial statements taken as a whole.

The Schedule of Expenditures of Federal Award presents additional analysis as required by Title 2 U.S. Code of Federal Regulations (CFR) Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards and is not a required part of the financial statements.

The Schedule is management's responsibility, and derives from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. We subjected this information to the auditing procedures 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.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated April 17, 2018, on our consideration of the School'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. That report describes the scope of our internal control testing over financial reporting and compliance, and the results of that testing, and does not opine on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the School's internal control over financial reporting and compliance.

A handwritten signature in black ink that reads "Dave Yost". The signature is written in a cursive, flowing style.

Dave Yost
Auditor of State
Columbus, Ohio

April 17, 2018

East Cleveland City School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2016
Unaudited

The discussion and analysis of the East Cleveland City School District's (the School District) financial performance provides an overall review of the School District's financial activities for the fiscal year ended June 30, 2016. The intent of this discussion and analysis is to look at the School District's financial performance as a whole; readers should also review the basic financial statements as well as the notes to the basic financial statements to enhance their understanding of the School District's financial performance.

Financial Highlights

Key financial highlights for fiscal year 2016 are as follows:

- ❑ General revenues accounted for the majority of all revenues, with intergovernmental revenues representing the largest share of those revenues.
- ❑ Program revenues of \$13,214,682 made up the second largest share of all revenues.
- ❑ The fund balance in the School District's governmental funds decreased from the prior fiscal year. This decrease is due to current year expenditures exceeding current year revenues by \$2.8 million.

Using this Annual Financial Report

This annual report consists of a series of financial statements and notes to those statements. These statements are presented following the requirements of Governmental Accounting Standards Board ("GASB") Statement No. 34, and are organized so the reader can understand the East Cleveland City School District as a financial whole, or entire operating entity. The statements then proceed to provide an increasingly detailed look at specific financial activities.

The statement of net position and statement of activities provide information about the activities of the whole School District, presenting both an aggregate view of the School District's finances and a longer-term view of those finances. Fund financial statements provide the next level of detail. For governmental funds, these statements tell how services were financed in the short-term as well as what remains for future spending. The fund financial statements also look at the School District's most significant funds with all other nonmajor funds presented in total in one column. In the case of the School District, the general fund is the most significant fund.

Reporting on the District as a Whole

Statement of Net Position and the Statement of Activities

While this document contains all of the funds used by the School District to provide programs and activities, the view of the School District as a whole looks at all financial transactions and asks the questions "How did we do financially during fiscal year 2016?" The statement of net position and the statement of activities provide the basis for answering these questions. The statements include all non-fiduciary assets and deferred outflows of resources and liabilities and deferred inflows of resources using the accrual basis of accounting similar to the accounting used by most private-sector companies. This basis of accounting recognizes all of the current year's revenues and expenses regardless of when cash is received or paid.

East Cleveland City School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2016
Unaudited

These two statements report the School District's net position and any change in that position. The change in net position is important because it tells the reader that, for the School District as a whole, the financial position of the School District has improved or diminished. The cause of this change may be the result of many factors, some strictly within the scope of the School District, some not. Non-financial factors include the School District's property tax base, community demographics, current property tax laws in Ohio restricting revenue growth, required educational programs and other factors.

The statement of net position and the statement of activities is represented in one type of activity; Governmental Activities. The School District's programs and services are reported here including instruction, support services, operation and maintenance of plant, pupil transportation and extracurricular activities as well as food service operations.

Reporting the School District's Most Significant Funds

The analysis of the School District's major funds begin on page 10. Fund financial reports provide detailed information about the School District's major funds. The School District uses many funds to account for a multitude of financial transactions. However, the fund financial statements focus on the School District's most significant funds. The School District's major funds are the general fund and the Title I special revenue fund.

Governmental Funds The School District's activities are reported in governmental funds, which focus on how money flows into and out of those funds and the balances left at fiscal year-end available for spending in future periods. These funds are reported using an accounting method called modified accrual accounting, which measures cash and all other financial assets that can readily be converted to cash. The governmental fund statements provide a detailed short-term view of the School District's general government operations and the basic services it provides. Governmental fund information helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance educational programs. The relationship (or differences) between governmental activities (reported in the statement of net position and the statement of activities) and governmental funds is reconciled in the financial statements of the governmental funds.

Fiduciary Funds The School District has only one type of fiduciary funds, agency funds. The agency funds are used to account for resources held for the benefit of parties outside the School District. The agency funds are not reflected on the government-wide statements because the resources from that fund are not available to support the School District's programs. These funds use the accrual basis of accounting.

The District as a Whole

Recall that the statement of net position provides the perspective of the School District as a whole, showing assets, deferred outflows of resources, liabilities, deferred inflows of resources and the difference between them (net position). Table 1 provides a summary of the School District's net position for fiscal year 2016 compared to fiscal year 2015:

East Cleveland City School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2016
Unaudited

Table 1
Net Position

	Governmental Activities		
	2016	Restated 2015	Change
Assets			
Current and Other Assets	\$29,026,233	\$31,209,864	(\$2,183,631)
Capital Assets, Net	70,792,603	72,686,669	(1,894,066)
Total Assets	99,818,836	103,896,533	(4,077,697)
Deferred Outflows of Resources			
Deferred Charge on Refunding Pension	79,267	97,214	(17,947)
	7,063,550	3,883,349	3,180,201
Total Deferred Outflows of Resources	7,142,817	3,980,563	3,162,254
Liabilities			
Current and Other Liabilities	4,487,100	4,469,668	(17,432)
Long-Term Liabilities:			
Due Within One Year	2,065,275	1,895,526	(169,749)
Due in More than One Year:			
Net Pension Liability	62,756,671	58,389,824	(4,366,847)
Other Amounts	6,977,891	6,916,013	(61,878)
Total Liabilities	76,286,937	71,671,031	(4,615,906)
Deferred Inflows of Resources			
Property Taxes	5,669,223	4,168,004	(1,501,219)
Pension	8,320,836	10,548,977	2,228,141
Total Deferred Inflows of Resources	13,990,059	14,716,981	726,922
Net Position			
Net Investment in Capital Assets	66,475,391	68,434,780	(1,959,389)
Restricted:			
Capital Projects	660,013	366,238	293,775
Debt Service	2,071,522	2,060,996	10,526
Other Purposes	4,161,415	4,350,995	(189,580)
Unrestricted (Deficit)	(56,683,684)	(53,713,925)	(2,969,759)
Total Net Position	\$16,684,657	\$21,499,084	(\$4,814,427)

The net pension liability (NPL) is the largest single liability reported by the School District at June 30, 2016 and is reported pursuant to GASB Statement 68, "Accounting and Financial Reporting for Pensions – an Amendment of GASB Statement 27." For reasons discussed below, many end users of this financial statement will gain a clearer understanding of the School District's actual financial condition by adding deferred inflows related to pension and the net pension liability to the reported net position and subtracting deferred outflows related to pension.

East Cleveland City School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2016
Unaudited

Governmental Accounting Standards Board standards are national and apply to all government financial reports prepared in accordance with generally accepted accounting principles. When accounting for pension costs, GASB 27 focused on a funding approach. This approach limited pension costs to contributions annually required by law, which may or may not be sufficient to fully fund each plan's *net pension liability*. GASB 68 takes an earnings approach to pension accounting, however, the nature of Ohio's statewide pension systems and state law governing those systems requires additional explanation in order to properly understand the information presented in these statements.

GASB 68 requires the net pension liability to equal the School District's proportionate share of each plan's collective:

1. Present value of estimated future pension benefits attributable to active and inactive employees' past service
2. Minus plan assets available to pay these benefits

GASB notes that pension obligations, whether funded or unfunded, are part of the "employment exchange" – that is, the employee is trading his or her labor in exchange for wages, benefits, and the promise of a future pension. GASB noted that the unfunded portion of this pension promise is a present obligation of the government, part of a bargained for benefit to the employee, and should accordingly be reported by the government as a liability since they received the benefit of the exchange. However, the School District is not responsible for certain key factors affecting the balance of this liability. In Ohio, the employee shares the obligation of funding pension benefits with the employer. Both employer and employee contribution rates are capped by State statute. A change in these caps requires action of both Houses of the General Assembly and approval of the Governor. Benefit provisions are also determined by State statute. The employee enters the employment exchange with the knowledge that the employer's promise is limited not by contract but by law. The employer enters the exchange also knowing that there is a specific, legal limit to its contribution to the pension system. In Ohio, there is no legal means to enforce the unfunded liability portion of the pension system *as against the public employer*. State law operates to mitigate/lessen the moral obligation of the public employer to the employee, because all parties enter the employment exchange with notice as to the law. The pension system is responsible for the administration of the plan.

Most long-term liabilities have set repayment schedules or, in the case of compensated absences (i.e. sick and vacation leave), are satisfied through paid time off or termination payments. There is no repayment schedule for the net pension liability. As explained above, changes in pension benefits, contribution rates, and return on investments affect the balance of the net pension liability, but are outside the control of the local government. In the event that contributions, investment returns, and other changes are insufficient to keep up with required pension payments, State statute does not assign/identify the responsible party for the unfunded portion. Due to the unique nature of how the net pension liability is satisfied, this liability is separately identified within the long-term liability section of the statement of net position.

In accordance with GASB 68, the School District's statements prepared on an accrual basis of accounting include an annual pension expense for their proportionate share of each plan's *change* in net pension liability not accounted for as deferred inflows/outflows.

The net position decreased from 2015 to 2016. The decrease is primarily attributable to expenditures outpacing revenues as a result of an increase in the net pension liability.

East Cleveland City School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2016
Unaudited

Table 2 shows the changes in net position for the fiscal year ended June 30, 2016 compared to fiscal year 2015.

Table 2
Change in Net Position

	Governmental Activities		
	2016	Restated 2015	Change
Revenues			
Program Revenues:			
Charges for Services and Sales	\$3,426,487	\$3,750,865	(\$324,378)
Operating Grants and Contributions	9,250,864	9,152,348	98,516
Capital Grants and Contributions	537,331	23,946	513,385
Total Program Revenues	13,214,682	12,927,159	287,523
General Revenues:			
Property Taxes	8,285,293	8,517,696	(232,403)
Grants and Entitlements	30,961,660	31,710,983	(749,323)
Investment Earnings	110,525	182,217	(71,692)
Miscellaneous	1,418,774	1,238,290	180,484
Total General Revenues	40,776,252	41,649,186	(872,934)
Total Revenues	53,990,934	54,576,345	(585,411)
Program Expenses			
Instruction	32,706,073	35,482,751	2,776,678
Support Services:			
Pupil	2,520,987	2,820,689	299,702
Instructional Staff	4,551,198	3,496,046	(1,055,152)
Board of Education	76,420	74,208	(2,212)
Administration	4,342,184	4,215,316	(126,868)
Fiscal	1,618,342	1,853,144	234,802
Business	605,886	565,485	(40,401)
Operation and Maintenance of Plant	5,519,484	5,216,155	(303,329)
Pupil Transportation	1,368,096	1,395,405	27,309
Central	3,092,382	2,833,393	(258,989)
Operation of Non-Instructional Services:			
Food Service Operations	1,440,966	1,547,220	106,254
Other Non-Instructional Services	103,238	92,201	(11,037)
Extracurricular Activities	661,979	644,671	(17,308)
Interest and Fiscal Charges	198,126	214,484	16,358
Total Program Expenses	58,805,361	60,451,168	1,645,807
Change in Net Position	(4,814,427)	(5,874,823)	1,060,396
Net Position Beginning of Year	21,499,084	27,373,907	5,874,823
Net Position End of Year	\$16,684,657	\$21,499,084	(\$4,814,427)

Governmental Activities

The School District carefully plans its financial future by projecting its revenues and expenses and presents them in a five-year forecast. The five-year forecast changes continually and is presented to and approved by the Board of Education at least twice a year.

East Cleveland City School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2016
Unaudited

The main sources of revenue for the School District are the State of Ohio payments through the Ohio Evidence-Based Model and grants. Although the School District relies upon local property taxes to support its operations, the School District does actively solicit and receive additional grant and entitlement funds to help offset some operating costs. Grants, entitlements and contributions made up the largest portion of total revenues while property taxes make up the second largest portion of total revenues in the School District for fiscal year 2016. Charges for services, investments and miscellaneous revenue made up the remainder of total revenues.

Total expenses are made up of two main areas: instruction and support services. Support services are made up of many subsections. Instruction costs made up the majority of all governmental expenses. Support services provide services such as busing, guidance, building and ground maintenance, administration, board of education and fiscal. Other areas of expenses are non-instructional services such as food services, extracurricular activities and interest and fiscal charges. Expenses decreased from fiscal year 2015 due to prudent spending.

The statement of activities shows the cost of program services and the charges for services and sales and grants and contributions offsetting those services. Table 3 shows, for governmental activities, the total cost of services and the net cost of services. That is, it identifies the cost of these services supported by tax revenue and unrestricted State entitlements.

The dependence on tax revenues and State subsidies for governmental activities is apparent. For all governmental activities, general revenues support 69.3 percent of expenses.

Table 3
 Net Cost of Governmental Activities

	Total Cost of Services 2016	Net Cost of Services 2016	Total Cost of Services 2015	Net Cost of Services 2015
Instruction:	\$32,706,073	\$26,213,199	\$35,482,751	\$28,101,914
Support Services:				
Pupils	2,520,987	1,973,103	2,820,689	2,560,139
Instructional Staff	4,551,198	1,946,870	3,496,046	1,619,390
Board of Education	76,420	71,426	74,208	68,796
Administration	4,342,184	3,998,127	4,215,316	3,630,796
Fiscal	1,618,342	1,491,856	1,853,144	1,639,802
Business	605,886	566,374	565,485	523,744
Operation and Maintenance of Plant	5,519,484	5,158,520	5,216,155	4,851,183
Pupil Transportation	1,368,096	961,655	1,395,405	886,731
Central	3,092,382	2,355,162	2,833,393	2,594,949
Operation of Non-Instructional Services:				
Operation of Food Services	1,440,966	111,354	1,547,220	114,071
Other Non-Instructional Services	103,238	10,302	92,201	46,975
Extracurricular Activities	661,979	534,605	644,671	520,350
Interest and Fiscal Charges	198,126	198,126	214,484	214,484
Total	\$58,805,361	\$45,590,679	\$60,451,168	\$47,373,324

East Cleveland City School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2016
Unaudited

The School District's Funds

Information about the School District's governmental funds begins with the balance sheet. These funds are accounted for using the modified accrual basis of accounting. All governmental funds had total revenues of \$55,657,688 and expenditures of \$58,479,285. The net change in fund balance for the fiscal year 2016 in the general fund was a decrease of \$2,964,061, due to expenditures outpacing revenues. The net change in fund balance for the year in the title I special revenue fund was an increase of \$672,474, due to a decrease in expenditures of over \$2 million.

General Fund Budgeting Highlights

The School District's budget is prepared according to Ohio law and is based on accounting for certain transactions on a basis of cash receipts, disbursements and encumbrances. The most significant budgeted fund is the general fund.

During the course of fiscal year 2016, the School District amended its general fund budget several times. The general fund final budgeted and actual revenue amounts were in the amounts of \$46,574,901 and \$47,229,115, respectively. Final budgeted revenues were higher than original budgeted revenues of \$42,889,000, by \$3,685,901. The difference between the original and final budgeted amounts is due to more than anticipated property tax and intergovernmental revenues for the fiscal year. The final budgeted expenditures of \$52,106,426 were the same as actual expenditures of \$52,106,426 and \$377,285 higher than original budgeted expenditures of \$51,826,576. The School District ended the current fiscal year with a decrease in fund balance from fiscal year 2015.

The School District uses a modified site-based budget technique which is designed to tightly control site budgets while providing flexibility for site management. The School District prepares and monitors a detailed cashflow plan for the general fund annually. Actual cashflow is compared to month-to-date and year-to-date estimates, and a monthly report is prepared for top management and the Board of Education.

Capital Assets and Debt Administration

Capital Assets

Table 4 shows fiscal year 2016 balances compared to fiscal year 2015.

Table 4
Capital Assets at June 30
 (Net of Depreciation)

	Governmental Activities		
	2016	Restated 2015	Change
Land	\$2,389,900	\$2,389,900	\$0
Land Improvements	1,199,725	1,317,109	(117,384)
Buildings and Improvements	66,015,955	68,364,084	(2,348,129)
Furniture and Equipment	1,126,519	542,065	584,454
Vehicles	60,504	73,511	(13,007)
Total Capital Assets	<u>\$70,792,603</u>	<u>\$72,686,669</u>	<u>(\$1,894,066)</u>

East Cleveland City School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2016
Unaudited

All capital assets, except land, are reported net of depreciation. The decrease in capital assets was due to current year depreciation and disposal of capital assets. In prior fiscal years, the School District was able to replace all buildings through the Ohio Schools Facility Commission program. For additional information on capital assets, see Note 13 of the notes to the basic financial statements.

For fiscal year 2016, Ohio law required school districts to expend or otherwise reserve three percent of qualifying revenues for the purpose of capital improvements. For fiscal year 2016, this amounted to \$418,976. The School District had qualifying disbursements exceeding these requirements. See Note 20 for additional set-aside information.

Debt

At June 30, 2016, the School District had the following outstanding debt:

Table 5
 Outstanding Debt at June 30

	Governmental Activities	
	2016	2015
General Obligation Bonds:		
2007 School Improvement Refunding Bonds	\$3,550,027	\$4,176,731

The School District's general obligation bonds were issued for the purposes of renovations of all School District facilities over a ten year period.

The School District's overall debt margin was \$12,821,610 with an unvoted debt margin of \$155,335. For additional information on long-term obligations, see Note 18 of the notes to the basic financial statements.

Current Financial Related Activities

As the preceding information shows, the School District is dependent on property taxes. Property tax revenue does not increase solely as a result of inflation. Therefore, the School District must continue to monitor its revenues and expenses to ensure the public's confidence and support.

The School District does not anticipate any meaningful growth in revenue as a result of any of the changes in taxes. Based on these factors, the Board of Education and the administration of the School District must maintain careful financial planning and prudent fiscal management in order to preserve the financial stability of the School District.

Challenges and Opportunities

The goal of the School District continues to be to maintain the highest standards of service to our students, parents and community. In keeping with its mission statement the Board of Education has adopted an Economy and Efficiency Plan.

East Cleveland City School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2016
Unaudited

The mission of the School District is to provide the children of East Cleveland with the academic and life skills needed for each and every one to be a success in the 21st Century.

To meet these goals it is imperative that the School District's management and staff continue to carefully and prudently plan in order to provide the resources and education required to meet student needs over the next several years.

Contacting the School District's Financial Management

This financial report is designed to provide our citizens, taxpayers, investors and creditors with a general overview of the School District's finances and to show the School District's accountability for the money it receives. If you have any questions about this report or need additional financial information, contact the Treasurer of East Cleveland City School District, 1843 Stanwood Road, East Cleveland, Ohio 44112-2901.

East Cleveland City School District

Statement of Net Position

June 30, 2016

	<u>Governmental Activities</u>
Assets	
Equity in Pooled Cash and Cash Equivalents	\$16,505,635
Cash and Cash Equivalents in Segregated Accounts	4,231
Accounts Receivable	26,393
Intergovernmental Receivable	3,283,474
Prepaid Items	108,667
Inventory Held for Resale	11,291
Materials and Supplies Inventory	3,641
Property Taxes Receivable	9,082,901
Nondepreciable Capital Assets	2,389,900
Depreciable Capital Assets	<u>68,402,703</u>
<i>Total Assets</i>	<u>99,818,836</u>
Deferred Outflows of Resources	
Deferred Charge on Refunding	79,267
Pension	<u>7,063,550</u>
<i>Total Deferred Outflows of Resources</i>	<u>7,142,817</u>
Liabilities	
Accounts Payable	295,331
Accrued Wages and Benefits Payable	3,337,202
Intergovernmental Payable	839,578
Accrued Interest Payable	14,989
Long-Term Liabilities:	
Due Within One Year	2,065,275
Due in More Than One Year:	
Net Pension Liability (See Note 22)	62,756,671
Other Amounts Due in More Than One Year	<u>6,977,891</u>
<i>Total Liabilities</i>	<u>76,286,937</u>
Deferred Inflows of Resources	
Property Taxes	5,669,223
Pension	<u>8,320,836</u>
<i>Total Deferred Inflows of Resources</i>	<u>13,990,059</u>
Net Position	
Net Investment in Capital Assets	66,475,391
Restricted for:	
Capital Projects	660,013
Debt Service	2,071,522
Food Service	1,071,755
Educational Services	2,826,547
District Managed Student Activities	178,093
Unclaimed Monies	85,020
Unrestricted (Deficit)	<u>(56,683,684)</u>
<i>Total Net Position</i>	<u><u>\$16,684,657</u></u>

See accompanying notes to the basic financial statements

East Cleveland City School District
Statement of Activities
For the Fiscal Year Ended June 30, 2016

	Program Revenues				Net (Expense)
	Expenses	Charges for Services and Sales	Operating Grants and Contributions	Capital Grants and Contributions	Revenue and Changes in Net Position
Governmental Activities					
Instruction:					
Regular	\$13,410,422	\$740,993	\$37,482	\$0	(\$12,631,947)
Special	10,324,407	592,234	4,301,022	0	(5,431,151)
Vocational	1,161,573	79,141	231,603	0	(850,829)
Adult/Continuing	14,314	935	0	0	(13,379)
Student Intervention Services	7,795,357	509,464	0	0	(7,285,893)
Support Services:					
Pupil	2,520,987	159,254	388,630	0	(1,973,103)
Instructional Staff	4,551,198	117,476	2,486,852	0	(1,946,870)
Board of Education	76,420	4,994	0	0	(71,426)
Administration	4,342,184	275,604	68,453	0	(3,998,127)
Fiscal	1,618,342	103,148	23,338	0	(1,491,856)
Business	605,886	39,512	0	0	(566,374)
Operation and Maintenance of Plant	5,519,484	333,787	27,177	0	(5,158,520)
Pupil Transportation	1,368,096	86,125	320,316	0	(961,655)
Central	3,092,382	199,889	0	537,331	(2,355,162)
Operation of Non-Instructional Services:					
Operation of Food Services	1,440,966	56,557	1,273,055	0	(111,354)
Other Non-Instructional Services	103,238	0	92,936	0	(10,302)
Extracurricular Activities	661,979	127,374	0	0	(534,605)
Interest and Fiscal Charges	198,126	0	0	0	(198,126)
<i>Total Governmental Activities</i>	<u>\$58,805,361</u>	<u>\$3,426,487</u>	<u>\$9,250,864</u>	<u>\$537,331</u>	<u>(45,590,679)</u>
General Revenues					
Property Taxes Levied for:					
General Purposes					7,577,641
Debt Service					655,858
Capital Outlay					51,794
Grants and Entitlements not Restricted to Specific Programs					30,961,660
Investment Earnings					110,525
Miscellaneous					1,418,774
<i>Total General Revenues</i>					<u>40,776,252</u>
Change in Net Position					(4,814,427)
<i>Net Position Beginning of Year (Restated - See Note 3)</i>					<u>21,499,084</u>
<i>Net Position End of Year</i>					<u>\$16,684,657</u>

See accompanying notes to the basic financial statements

East Cleveland City School District

Balance Sheet

Governmental Funds

June 30, 2016

	<u>General</u>	<u>Title I</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Assets				
Equity in Pooled Cash and Cash Equivalents	\$11,375,577	\$0	\$5,045,038	\$16,420,615
Cash and Cash Equivalents in Segregated Accounts	4,231	0	0	4,231
Restricted Equity in Pooled Cash and Cash Equivalents	85,020	0	0	85,020
Accounts Receivable	5,789	0	20,604	26,393
Intergovernmental Receivable	5,496	2,093,770	1,184,208	3,283,474
Prepaid Items	98,179	4,330	6,158	108,667
Inventory Held for Resale	0	0	11,291	11,291
Materials and Supplies Inventory	0	0	3,641	3,641
Interfund Receivable	3,761,153	1,549,999	1,507,205	6,818,357
Property Taxes Receivable	8,198,013	0	884,888	9,082,901
<i>Total Assets</i>	<u>\$23,533,458</u>	<u>\$3,648,099</u>	<u>\$8,663,033</u>	<u>\$35,844,590</u>
Liabilities				
Accounts Payable	\$271,324	\$3,964	\$20,043	\$295,331
Accrued Wages and Benefits Payable	2,995,334	161,969	179,899	3,337,202
Intergovernmental Payable	708,577	70,168	60,833	839,578
Interfund Payable	2,768,206	1,690,517	2,359,634	6,818,357
<i>Total Liabilities</i>	<u>6,743,441</u>	<u>1,926,618</u>	<u>2,620,409</u>	<u>11,290,468</u>
Deferred Inflows of Resources				
Unavailable Revenue	1,252,306	1,481,618	916,968	3,650,892
Property Taxes	5,151,682	0	517,541	5,669,223
<i>Total Deferred Inflows of Resources</i>	<u>6,403,988</u>	<u>1,481,618</u>	<u>1,434,509</u>	<u>9,320,115</u>
Fund Balances				
Nonspendable	183,199	4,330	9,799	197,328
Restricted	0	235,533	5,119,013	5,354,546
Assigned	4,363,079	0	0	4,363,079
Unassigned (Deficit)	5,839,751	0	(520,697)	5,319,054
<i>Total Fund Balances</i>	<u>10,386,029</u>	<u>239,863</u>	<u>4,608,115</u>	<u>15,234,007</u>
<i>Total Liabilities, Deferred Inflows of Resources and Fund Balance</i>	<u>\$23,533,458</u>	<u>\$3,648,099</u>	<u>\$8,663,033</u>	<u>\$35,844,590</u>

See accompanying notes to the basic financial statements

East Cleveland City School District
Reconciliation of Total Governmental Fund Balances to
Net Position of Governmental Activities
June 30, 2016

Total Governmental Funds Balances	\$15,234,007
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Amounts reported for governmental activities in the statement of net position are different because:

Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.	70,792,603
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Other long-term assets are not available to pay for current-period expenditures and therefore are reported as unavailable in the funds:	
Delinquent Property Taxes	1,382,488
Intergovernmental	2,268,404
Total	3,650,892

In the statement of activities, interest is accrued on outstanding bonds, whereas in governmental funds, an interest expenditure is reported when due.	(14,989)
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Deferred outflows of resources represent deferred charges on refundings, which are not reported in the funds.	79,267
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Long-term liabilities are not due and payable in the current period and therefore are not reported in the funds:	
General Obligation Bonds	(3,550,027)
Capital Leases	(846,452)
Compensated Absences	(4,646,687)
Total	(9,043,166)

The net pension liability is not due and payable in the current period; therefore, the liability and related deferred inflows/outflows are not reported in governmental funds:	
Deferred Outflows - Pension	7,063,550
Net Pension Liability	(62,756,671)
Deferred Inflows - Pension	(8,320,836)
Total	(64,013,957)

<i>Net Position of Governmental Activities</i>	<u><u>\$16,684,657</u></u>
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See accompanying notes to the basic financial statements

East Cleveland City School District

Statement of Revenues, Expenditures and Changes in Fund Balances

Governmental Funds

For the Fiscal Year Ended June 30, 2016

	General	Title I	Other Governmental Funds	Total Governmental Funds
Revenues				
Property Taxes	\$8,091,242	\$0	\$781,751	\$8,872,993
Intergovernmental	34,294,636	3,204,166	4,196,887	41,695,689
Interest	80,809	0	86,273	167,082
Charges for Services	6,106	0	56,557	62,663
Tuition and Fees	3,256,439	0	0	3,256,439
Rentals	65,788	0	0	65,788
Extracurricular Activities	11,733	0	29,864	41,597
Contributions and Donations	458	0	76,205	76,663
Miscellaneous	1,412,930	0	5,844	1,418,774
<i>Total Revenues</i>	<u>47,220,141</u>	<u>3,204,166</u>	<u>5,233,381</u>	<u>55,657,688</u>
Expenditures				
Current:				
Instruction:				
Regular	11,505,316	0	211,237	11,716,553
Special	9,067,173	796,857	817,119	10,681,149
Vocational	1,191,573	0	0	1,191,573
Adult/Continuing	14,314	0	0	14,314
Student Intervention Services	7,795,357	0	0	7,795,357
Support Services:				
Pupil	2,301,967	189,751	165,434	2,657,152
Instructional Staff	1,774,380	1,378,757	1,202,996	4,356,133
Board of Education	76,420	0	0	76,420
Administration	4,017,432	46,011	24,282	4,087,725
Fiscal	1,589,417	0	22,436	1,611,853
Business	597,363	0	0	597,363
Operation and Maintenance of Plant	5,179,509	4,339	113,554	5,297,402
Pupil Transportation	1,307,585	14,739	2,123	1,324,447
Central	3,071,184	0	16,768	3,087,952
Operation of Non-Instructional Services	0	101,238	2,000	103,238
Operation of Food Services	0	0	1,385,827	1,385,827
Extracurricular Activities	345,653	0	231,824	577,477
Capital Outlay	773,962	0	234,516	1,008,478
Debt Service:				
Principal Retirement	99,882	0	595,000	694,882
Interest and Fiscal Charges	21,484	0	192,506	213,990
<i>Total Expenditures</i>	<u>50,729,971</u>	<u>2,531,692</u>	<u>5,217,622</u>	<u>58,479,285</u>
<i>Excess of Revenues Over (Under) Expenditures</i>	<u>(3,509,830)</u>	<u>672,474</u>	<u>15,759</u>	<u>(2,821,597)</u>
Other Financing Sources (Uses)				
Inception of Capital Lease	773,962	0	0	773,962
Transfers In	0	0	228,193	228,193
Transfers Out	(228,193)	0	0	(228,193)
<i>Total Other Financing Sources (Uses)</i>	<u>545,769</u>	<u>0</u>	<u>228,193</u>	<u>773,962</u>
<i>Net Change in Fund Balances</i>	<u>(2,964,061)</u>	<u>672,474</u>	<u>243,952</u>	<u>(2,047,635)</u>
<i>Fund Balances (Deficit) Beginning of Year</i>	<u>13,350,090</u>	<u>(432,611)</u>	<u>4,364,163</u>	<u>17,281,642</u>
<i>Fund Balances End of Year</i>	<u>\$10,386,029</u>	<u>\$239,863</u>	<u>\$4,608,115</u>	<u>\$15,234,007</u>

See accompanying notes to the basic financial statements

East Cleveland City School District
*Reconciliation of the Statement of Revenues, Expenditures and Changes
in Fund Balances of Governmental Funds to the Statement of Activities
For the Fiscal Year Ended June 30, 2016*

Net Change in Fund Balances -Total Governmental Funds (\$2,047,635)

Amounts reported for governmental activities in the statement of activities are different because:

Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense.

This is the amount by which depreciation exceeded capital outlay in the current period:

Capital Asset Additions	773,962	
Current Year Depreciation	<u>(2,662,324)</u>	
Total		(1,888,362)

Governmental funds only report the disposal of capital assets to the extent proceeds are received from the sale. In the statement of activities, a gain or loss is reported for each disposal. (5,704)

Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds:

Delinquent Property Taxes	(587,700)	
Intergovernmental	<u>(1,079,054)</u>	
Total		(1,666,754)

Other financing sources in the governmental funds increase long-term liabilities in the statement of net assets.

Inception of Capital Lease	(773,962)
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In the statement of activities, interest accrued on outstanding bonds, bond premium, and loss on refunding are amortized over the term of the bonds, whereas in governmental funds an interest expenditure is reported when due and premiums and loss on refunding are reported when the bonds are issued:

Accrued Interest	2,107	
Amortization of Bond Premium	31,704	
Amortization of Accounting Loss	<u>(17,947)</u>	
Total		15,864

Repayment of bond and capital lease principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net position. 694,882

Compensated absences reported in the statement of activities, do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds. (184,251)

Contractually required contributions are reported as expenditures in governmental funds; however, the statement of net position reports these amounts as deferred outflows. 3,439,344

Except for amounts reported as deferred inflows/outflows, changes in the net pension liability are reported as pension expense in the statement of activities. (2,397,849)

Change in Net Position of Governmental Activities (\$4,814,427)

See accompanying notes to the basic financial statements

East Cleveland City School District
Statement of Revenues, Expenditures and Changes
in Fund Balance - Budget (Non-GAAP Basis) and Actual
General Fund
For the Fiscal Year Ended June 30, 2016

	Budgeted Amounts			Variance with Final Budget Positive (Negative)
	Original	Final	Actual	
Revenues				
Property Taxes	\$5,900,000	\$8,215,015	\$8,215,015	\$0
Intergovernmental	32,910,500	34,307,374	34,307,374	0
Interest	75,000	12,796	12,796	0
Charges for Services	4,000	6,106	6,106	0
Tuition and Fees	3,197,000	3,256,439	3,256,439	0
Rentals	15,000	69,569	69,569	0
Extracurricular Activities	0	3,025	3,025	0
Miscellaneous	787,500	704,577	1,358,791	654,214
<i>Total Revenues</i>	<u>42,889,000</u>	<u>46,574,901</u>	<u>47,229,115</u>	<u>654,214</u>
Expenditures				
Current:				
Instruction:				
Regular	12,384,471	11,781,999	11,781,999	0
Special	9,956,276	9,911,276	9,911,276	0
Vocational	1,214,042	1,214,042	1,214,042	0
Adult/Continuing	14,564	14,564	14,564	0
Student Intervention Services	7,887,857	7,795,357	7,795,357	0
Support Services:				
Pupil	2,374,421	2,374,421	2,374,421	0
Instructional Staff	1,752,834	1,728,534	1,728,534	0
Board of Education	147,658	85,536	85,536	0
Administration	4,144,175	4,234,175	4,234,175	0
Fiscal	1,494,196	1,782,874	1,782,874	0
Business	604,634	604,634	604,634	0
Operation and Maintenance of Plant	5,360,293	5,828,293	5,828,293	0
Pupil Transportation	1,411,738	1,411,738	1,411,738	0
Central	2,990,852	2,999,983	2,999,983	0
Extracurricular Activities	88,565	339,000	339,000	0
<i>Total Expenditures</i>	<u>51,826,576</u>	<u>52,106,426</u>	<u>52,106,426</u>	<u>0</u>
<i>Excess of Revenues Over (Under) Expenditures</i>	<u>(8,937,576)</u>	<u>(5,531,525)</u>	<u>(4,877,311)</u>	<u>654,214</u>
Other Financing Sources (Uses)				
Advances In	6,000,000	99,020	99,020	0
Advances Out	(6,000,000)	(3,724,288)	(669,157)	3,055,131
Transfers In	0	2,160	0	(2,160)
Transfers Out	(250,000)	(230,000)	(228,193)	1,807
<i>Total Other Financing Sources (Uses)</i>	<u>(250,000)</u>	<u>(3,853,108)</u>	<u>(798,330)</u>	<u>3,054,778</u>
<i>Net Change in Fund Balance</i>	(9,187,576)	(9,384,633)	(5,675,641)	3,708,992
<i>Fund Balance Beginning of Year</i>	16,778,740	16,778,740	16,778,740	0
Prior Year Encumbrances Appropriated	1,145,298	1,145,298	1,145,298	0
<i>Fund Balance End of Year</i>	<u>\$8,736,462</u>	<u>\$8,539,405</u>	<u>\$12,248,397</u>	<u>\$3,708,992</u>

See accompanying notes to the basic financial statements

East Cleveland City School District
Statement of Revenues, Expenditures and Changes
in Fund Balance - Budget (Non-GAAP Basis) and Actual
Title I Fund
For the Fiscal Year Ended June 30, 2016

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues				
Intergovernmental	\$5,700,000	\$4,965,790	\$2,592,014	(\$2,373,776)
Expenditures				
Current:				
Instruction:				
Special	1,356,832	1,278,404	824,745	453,659
Support Services:				
Pupil	417,795	417,795	205,229	212,566
Instructional Staff	3,403,837	1,983,215	1,369,211	614,004
Administration	96,146	96,146	44,713	51,433
Fiscal	57,392	57,392	0	57,392
Operation and Maintenance of Plant	29,163	29,163	4,879	24,284
Pupil Transportation	20,700	20,700	12,688	8,012
Operation of Non-Instructional Services	377,211	337,484	134,019	203,465
<i>Total Expenditures</i>	5,759,076	4,220,299	2,595,484	1,624,815
<i>Net Change in Fund Balance</i>	(59,076)	745,491	(3,470)	(748,961)
<i>Fund Balance Beginning of Year</i>	(1,796,337)	(1,796,337)	(1,796,337)	0
Prior Year Encumbrances Appropriated	59,076	59,076	59,076	0
<i>Fund Balance (Deficit) End of Year</i>	(\$1,796,337)	(\$991,770)	(\$1,740,731)	(\$748,961)

See accompanying notes to the basic financial statements

East Cleveland City School District
Statement of Fiduciary Assets and Liabilities
Agency Funds
June 30, 2016

	<u>Agency</u>
Assets	
Equity in Pooled Cash and Cash Equivalents	<u>\$176,954</u>
Liabilities	
Undistributed Monies	\$16,804
Due to Students	<u>160,150</u>
<i>Total Liabilities</i>	<u>\$176,954</u>

See accompanying notes to the basic financial statements

East Cleveland City School District

*Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2016*

Note 1 – Description of the School District and Reporting Entity

East Cleveland City School District (the School District) is a city school district as defined by Section 3311.02 of the Ohio Revised Code. 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 School District is one of the 614 school districts in the State of Ohio and one of 33 in Cuyahoga County, and provides education to 2,470 students in grades K through 12. The School District is located in northeast Ohio, covers approximately 2.8 square miles and includes all of the City of East Cleveland and a small portion of the City of Cleveland Heights. The operation of the School District is governed by an elected five-member Board of Education.

The Board controls the School District's five elementary schools, one middle school and one high school, staffed by 147 support staff personnel, 180 certified teaching personnel and 34 administrators who provide services to community members and students.

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 consists of all funds, departments, boards and agencies that are not legally separate from the School District. For the School District, the agencies and departments provide the following services: 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. Component units may also include organizations that are fiscally dependent on the School District in that the School District approves the budget, the issuance of debt or the levying of taxes. The School District has no component units.

The School District participates in an insurance purchasing pool, a related organization and two jointly governed organizations. These organizations are the Ohio School Boards Association Workers' Compensation Group Rating Program, East Cleveland Public Library, Connect, and Ohio Schools' Council Association. These organizations are presented in Notes 15, 16, and 17 of the notes to the basic financial statements.

Note 2 – Summary of Significant Accounting Policies

The financial statements of the School District have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The more significant of the School District's accounting policies are described as follows.

East Cleveland City School District

*Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2016*

Basis of Presentation

The School District's basic financial statements consist of government-wide statements, including a statement of net position 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 position 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. These statements usually distinguish between those activities of the School District that are governmental (primarily supported by taxes and intergovernmental revenues) and those that are considered business-type activities (primarily supported by fees and charges). However, the School District has only governmental activities; therefore, no business-type activities are presented.

The statement of net position presents the financial condition of the governmental activities of the School District at fiscal year-end. The statement of activities presents a comparison between direct expenses and program revenues for each program or function of the School District's governmental activities. Direct expenses are those that are specifically associated with a service, program or department and therefore clearly identifiable to a particular function. Program revenues include charges paid by the recipient of the goods or services offered by the program, grants and contributions that are restricted to meeting the operational or capital requirements of a particular program and interest earned on grants that is required to be used to support a particular program. Revenues which are not classified as program revenues are presented as general revenues of the School District, with certain limited exceptions. The comparison of direct expenses with program revenues identifies the extent to which a governmental function is self-financing or draws from the general revenues of the School District.

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 are designed to present financial information of the School District at this more detailed level. The focus of governmental fund financial statements is on major funds. Each major fund is presented in a separate column. Nonmajor funds are aggregated and presented in a single column. Fiduciary funds are reported by type.

Fund Accounting

The School District uses funds to maintain its financial records during the fiscal year. A fund is defined as a fiscal and accounting entity with a self balancing set of accounts. The funds of the School District are divided into two categories: governmental and fiduciary.

Governmental Funds Governmental funds are those through which most governmental functions typically are financed. Governmental fund reporting focuses on the sources, uses and balances of current financial resources. Expendable assets are assigned to the various governmental funds according to the purposes for which they may or must be used. Current liabilities are assigned to the fund from which they will be paid. The difference between governmental fund assets and liabilities and deferred inflows of resources is reported as fund balance. The following are the School District's major governmental funds:

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

East Cleveland City School District

Notes to the Basic Financial Statements For the Fiscal Year Ended June 30, 2016

Title I Fund The Title I special revenue fund accounts for and reports restricted Federal monies used to assist the School District in meeting the special needs of educationally deprived children.

The other governmental funds of the School District account for grants and other resources, whose use is restricted, committed or assigned to a particular purpose.

Fiduciary Fund Type Fiduciary fund reporting focuses on net position and changes in net position. 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 School District has no trust funds. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. The School District's agency funds report resources belonging to the student bodies of the various schools and college scholarship money.

Measurement Focus

Government-wide Financial Statements The government-wide financial statements are prepared using the economic resources measurement focus. All assets and deferred outflows of resources and all liabilities and deferred inflows of resources associated with the operation of the School District are included on the statement of net position. The statement of activities presents increases (i.e., revenues) and decreases (i.e., expenses) in total net position.

Fund Financial Statements All governmental funds are accounted for using a flow of current financial resources measurement focus. With this measurement focus, only current assets and deferred outflows of resources and current liabilities and deferred inflows of resources generally are included on the balance sheet. The statement of revenues, expenditures and changes in fund balances reports on the sources (i.e., revenues and other financing sources) and uses (i.e., expenditures and other financing uses) of current financial resources. This approach differs from the manner in which the governmental activities of the government-wide financial statements are prepared. Governmental fund financial statements therefore include a reconciliation with brief explanations to better identify the relationship between the government-wide statements and the statements for governmental funds.

Basis of Accounting

Basis of accounting determines when transactions are recorded in the financial records and reported on the financial statements. Government-wide financial statements are prepared using the accrual basis of accounting. Governmental funds use the modified accrual basis of accounting. Fiduciary funds also use the accrual basis of accounting. Differences in the accrual and the modified accrual basis of accounting arise in the recognition of revenue, the recording of deferred outflows/inflows of resources, and in the presentation of expenses versus expenditures.

Revenues - Exchange and Non-Exchange Transactions Revenue resulting from exchange transactions, in which each party gives and receives essentially equal value, is recorded on the accrual basis when the exchange takes place. On a modified accrual basis, revenue is recorded in the fiscal year in which the resources are measurable and become available. Available means that the resources will be collected within the current fiscal year or are expected to be collected soon enough thereafter to be used to pay liabilities of the current fiscal year. For the School District, available means expected to be received within sixty days of fiscal year-end.

East Cleveland City School District

Notes to the Basic Financial Statements For the Fiscal Year Ended June 30, 2016

Nonexchange transactions, in which the School District receives value without directly giving equal value in return, include property taxes, grants, entitlements and donations. On an accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied. (See Note 8). Revenue from grants, entitlements and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the fiscal year when the resources are required to be used or the fiscal year when use is first permitted, matching requirements, in which the School District must provide local resources to be used for a specified purpose, and expenditure requirements, in which the resources are provided to the School District on a reimbursement basis. On a modified accrual basis, revenue from nonexchange transactions must also be available before it can be recognized.

Under the modified accrual basis, the following revenue sources are considered to be both measurable and available at fiscal year-end: property taxes available as an advance, interest, tuition, grants, and fees.

Deferred Outflows/Inflows of Resources In addition to assets, the statements of financial position will sometimes report a separate section for deferred outflows of resources. Deferred outflows of resources, represents a consumption of net position that applies to a future period and will not be recognized as an outflow of resources (expense/expenditure) until then. For the School District, deferred outflows of resources are reported on the government-wide statement of net position for deferred charges on refunding and for pension. A deferred charge on refunding results from the difference in the carrying value of refunded debt and its reacquisition price. This amount is deferred and amortized over the shorter of the life of the refunded or refunding debt. The deferred outflows of resources related to pension are explained in Note 22.

In addition to liabilities, the statements of financial position report a separate section for deferred inflows of resources. Deferred inflows of resources represent an acquisition of net position that applies to a future period and will not be recognized until that time. For the School District, deferred inflows of resources include property taxes, pension and unavailable revenue. Property taxes represent amounts for which there is an enforceable legal claim as of June 30, 2016, but which were levied to finance fiscal year 2017 operations. These amounts have been recorded as a deferred inflow on both the government-wide statement of net position and the governmental fund financial statements. Unavailable revenue is reported only on the governmental funds balance sheet, and represents receivables which will not be collected within the available period. For the School District, unavailable revenue includes delinquent property taxes and intergovernmental grants. These amounts are deferred and recognized as an inflow of resources in the period the amounts become available. The details of these unavailable revenues are identified on the reconciliation of total governmental fund balances to net position of governmental activities found on page 17. Deferred inflows of resources related to pension are reported on the government-wide statement of net position (See Note 22).

Expenditures/Expenses On the accrual basis of accounting, expenses are recognized at the time they are incurred.

The measurement focus of governmental fund accounting is on decreases in net financial resources (expenditures) rather than expenses. Expenditures are generally recognized in the accounting period in which the related fund liability is incurred, if measurable. Allocations of cost, such as depreciation and amortization, are not recognized in governmental funds.

East Cleveland City School District

*Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2016*

Pensions

For purposes of measuring the net pension liability, deferred outflows of resources, and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the pension plans and additions to/deductions from their fiduciary net position have been determined on the same basis as they are reported by the pension systems. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. The pension systems report investments at fair value.

Budgetary Data

All funds, other than agency funds, are legally required to be budgeted and appropriated. The major documents prepared are the tax budget, the appropriation resolution and the certificate of estimated resources, 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 amounts that the Board of Education may appropriate. The appropriation resolution is the Board's authorization to spend resources and set annual limits on expenditures plus encumbrances at a level of control selected by the Board. The legal level of control has been established by the Board of Education at the fund level for all funds. The budgets are monitored at the object level within a function and fund. The Treasurer has been given the authority to allocate appropriations to the function and object levels within each fund.

The certificate of estimated resources may be amended during the fiscal year if projected increases or decreases in revenue are identified by the School District Treasurer. The amounts reported as the original and final budgeted amounts in the budgetary statements reflect the amounts in the amended certificate when the original and final appropriations were passed by the Board of Education.

The appropriation resolution is subject to amendment by the Board throughout the fiscal year with the restriction that appropriations may not exceed estimated revenues by fund. The amounts reported as the original budgeted amounts reflect the first appropriation for that fund that covered the entire fiscal year, including amounts automatically carried over 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, including amounts automatically carried over from prior fiscal years.

Cash and Cash Equivalents

To improve cash management, cash received by the School District is pooled. 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" on the financial statements.

During fiscal year 2016, the School District's investments were limited to federal national mortgage association bonds, federal home loan mortgage corporation bonds and STAR Ohio.

Except for nonparticipating investment contracts, investments are reported at fair value which is based on quoted market prices.

East Cleveland City School District

*Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2016*

STAR Ohio (the State Treasury Asset Reserve of 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 has adopted Governmental Accounting Standards Board (GASB), Statement No. 79, "Certain External Investment Pools and Pool Participants." The School District measures their investment in STAR Ohio at the net asset value (NAV) per share provided by STAR Ohio. The NAV per share is calculated on an amortized cost basis that provides an NAV per share that approximates fair value.

For the fiscal year 2016, there were no limitations or restrictions on any participant withdrawals due to redemption notice periods, liquidity fees, or redemption gates. However, notice must be given 24 hours in advance of all deposits and withdrawals exceeding \$25 million. STAR Ohio reserves the right to limit the transaction to \$50 million, requiring the excess amount to be transacted the following business day(s), but only to the \$50 million limit. All accounts of the participant will be combined for these purposes.

Following Ohio statutes, the Board of Education has, by resolution, identified the funds to receive an allocation of interest earnings. Interest revenue credited to the general fund during fiscal year 2016 amounted to \$80,809, which includes \$30,082 assigned from other School District funds.

Investments of the 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 not purchased from the pool are reported as investments.

Restricted Assets

Assets are reported as restricted when limitations on their use change in nature or normal understanding of the availability of the asset. Such constraints are either externally imposed by creditors, contributors, grantors, laws of other governments, or imposed by law through constitutional provisions. Restricted assets in the general fund include amounts for unclaimed monies.

Prepaid Items

Payments made to vendors for services that will benefit periods beyond June 30, 2016, are recorded as prepaid items using the consumption method by recording a current asset for the prepaid amount at the time of purchase and reflecting the expenditure/expense in the year in which the services are consumed.

Inventory

Inventories are presented at cost on a first-in, first-out basis and are expended/expensed when used. Inventories consist of materials and supplies held for consumption.

Capital Assets

All capital assets of the School District are classified as general capital assets. These assets generally result from expenditures in the governmental funds. They are reported in the governmental activities column of the government-wide statement of net position but are not reported in the fund financial statements.

East Cleveland City School District

*Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2016*

Capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the fiscal year. Donated capital assets are recorded at their acquisition values as of the date received. The School District maintains a capitalization threshold of five thousand dollars. The School District does not possess any infrastructure. Improvements are capitalized; the costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not.

All reported capital assets except land are depreciated. Improvements are depreciated over the remaining useful lives of the related capital assets. Depreciation is computed using the straight-line method over the following useful lives:

Description	Governmental Activities Estimated Lives
Land Improvements	10 - 40 years
Buildings and Improvements	10 - 40 years
Furniture and Equipment	10 - 20 years
Vehicles	12 years
Textbooks	7 years

Bond Premium

On government-wide financial statement, bond premiums are deferred and amortized over the term of the bonds using the effective interest method. Bond premiums are presented as an increase of the face amount of the bonds payable. On the governmental fund statements, bond premiums are receipted in the year the bonds are issued. Under Ohio law, premiums on the original issuance of debt are to be deposited to the bond retirement fund to be used for debt retirement and are precluded from being applied to the project fund. Ohio law does allow premiums on refunding debt to be used as part of the payment to the bond escrow agent.

Deferred Charge on Refunding

On the government-wide financial statements, the difference between the reacquisition price (funds required to refund the old debt) and the net carrying amount of the old debt, the gain/loss on refunding, is being amortized as a component of interest expense. This deferred amount is amortized over the life of the old or new debt, whichever is shorter, using the effective interest method and is presented as deferred outflows of resources on the statement of net position.

Interfund Balances

On fund financial statements, receivables and payables resulting from short-term interfund loans are classified as "interfund receivables/payables." These amounts are eliminated in the governmental activities column of the statement of net position.

Compensated Absences

Vacation benefits are accrued as a liability as the benefits are earned if the employees' rights to receive compensation are attributable to services already rendered and it is probable that the employer will compensate the employees for the benefits through paid time off or some other means. The School District records a liability for accumulated unused vacation time when earned for all employees with more than one year of service.

East Cleveland City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2016

Sick leave benefits are accrued as a liability using the termination method. An accrual for earned sick leave is made to the extent that it is probable that benefits will result in termination payments. The liability is an estimate based on the School District's past experience of making termination payments.

Accrued Liabilities and Long-Term Obligations

All payables, accrued liabilities and long-term obligations are reported in the government-wide financial statements.

In general, governmental fund payables and accrued liabilities that, once incurred, are paid in a timely manner and in full from current financial resources, are reported as obligations of the funds. However, compensated absences and net pension liability that will be paid from governmental funds are reported as a liability in the fund financial statements only to the extent that they are due for payment during the current fiscal year. Bonds are recognized as a liability on the fund financial statements when due.

Internal Activity

Transfers between governmental activities are eliminated on the government-wide financial statements. Internal events that are allocations of overhead expenses from one function to another or within the same function are eliminated on the Statement of Activities. Interfund payments for services provided and used are not eliminated.

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

Net Position

Net position represents the difference between all other elements in a statement of financial position. Net investment in capital assets consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction or improvement of those assets. Net position is reported as restricted when there are limitations imposed on its use through external restrictions imposed by creditors, grantors or laws or regulations of other governments. Net position restricted for other purposes include resources restricted for teacher development and student services.

The School District applies restricted resources first when an expense is incurred for purposes for which both restricted and unrestricted net position is available.

Fund Balance

Fund balance is divided into five classifications based primarily on the extent to which the School District is bound to observe constraints imposed upon the use of the resources in the governmental funds. The classifications are as follows:

Nonspendable The nonspendable fund balance category includes amounts that cannot be spent because they are not in spendable form, or legally or contractually required to be maintained intact. The "not in spendable form" criterion includes items that are not expected to be converted to cash.

East Cleveland City School District

*Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2016*

Restricted Fund balance is reported as restricted when constraints placed on the use of resources are either externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments or is imposed by law through constitutional provisions.

Committed The committed fund balance classification includes amounts that can be used only for the specific purposes imposed by the highest level formal action (resolution) of the School District Board of Education. Those committed amounts cannot be used for any other purpose unless the School District Board of Education removes or changes the specified use by taking the same type of action (resolution) it employed to previously commit those amounts. Committed fund balance also incorporates contractual obligations to the extent that existing resources in the fund have been specifically committed for use in satisfying those contractual requirements.

Assigned Amounts in the assigned fund balance classification are intended to be used by the School District for specific purposes but do not meet the criteria to be classified as restricted or committed. In governmental funds other than the general fund, assigned fund balance includes the remaining amount that is not restricted or committed. These assigned balances are established by the School District Board of Education. In the general fund, assigned amounts represent intended uses established by policies of the School District Board of Education or a School District official delegated that authority by resolution by State statute. State statute authorizes the Treasurer to assign fund balance for purchases on order provided such amounts have been lawfully appropriated. The School District's Board of Education assigned fund balance for public school support services and to cover a gap between estimated revenues and appropriations in fiscal year 2017's budget.

Unassigned Unassigned fund balance is the residual classification for the general fund and includes all spendable amounts not contained in the other classifications. In other governmental funds, the unassigned classification is used only to report a deficit balance.

The School District applies restricted resources first when expenditures are incurred for purposes for which either restricted or unrestricted (committed, assigned, and unassigned) amounts are available. Similarly, within unrestricted fund balance, committed amounts are reduced first followed by assigned, and then unassigned amounts when expenditures are incurred for purposes for which amounts in any of the unrestricted fund balance classifications could be used.

Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results may differ from those estimates.

East Cleveland City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2016

Note 3 – Change in Accounting Principle and Restatement of Fund Balance and Net Position

Change in Accounting Principle

For fiscal year 2016, the School District implemented Governmental Accounting Standards Board (GASB) Statement No. 72, “Fair Value Measurement and Application,” GASB Statement No. 73, “Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68,” GASB Statement No. 76, “The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments,” GASB Statement No. 79, “Certain External Investment Pools and Pool Participants,” and GASB Statement No. 82, “Pension Issues an Amendment of GASB Statements No. 67, No. 68 and No. 73.”

GASB Statement No. 72 addresses accounting and financial reporting issues related to fair value measurements. This Statement provides guidance for determining a fair value measurement for financial reporting purposes for applying fair value to certain investments and disclosures related to all fair value measurements. These changes were incorporated in the School District’s fiscal year 2016 financial statements; however, there was no effect on beginning net position/fund balance.

GASB Statement No. 73 establishes requirements for defined benefit pensions that are not within the scope of Statement No. 68, *Accounting and Financial Reporting for Pensions*, as well as for the assets accumulated for purposes of providing those pensions. It also amends certain provisions of Statement No. 67, *Financial Reporting for Pension Plans*, and Statement 68. The implementation of this GASB pronouncement did not result in any changes to the School District’s financial statements.

GASB Statement No. 76 identifies-in the context of the current governmental financial reporting environment-the sources of accounting principles used to prepare financial statements of state and local governmental entities in conformity with generally accepted accounting principles (GAAP) and the framework for selecting those principles. The implementation of this GASB pronouncement did not result in any changes to the School District’s financial statements.

GASB Statement No. 79 establishes accounting and financial reporting standards for qualifying external investment pools that elect to measure for financial reporting purposes all of their investments at amortized cost. This Statement provides accounting and financial reporting guidance also establishes additional note disclosure requirements for governments that participate in those pools. The School Districts participates in STAR Ohio which implemented GASB Statement No. 79 for fiscal year 2016. The School District incorporated the corresponding GASB 79 guidance into their fiscal year 2016 financial statements; however, there was no effect on beginning net position/fund balance.

GASB Statement No. 82 improves consistency in the application of pension accounting. These changes were incorporated in the School District’s fiscal year 2016 financial statements; however, there was no effect on beginning net position/fund balance.

Restatement of Fund Balance and Net Position

During fiscal year 2016, it was determined that the School District incorrectly posted a prior year audit adjustment for property taxes and homestead and rollback. It was also determined that capital leases entered into during a previous year were not recorded and a prior year capital lease was retired but not removed.

East Cleveland City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2016

These restatements had the following effect on fund balance and net position as reported at June 30, 2015:

	General	Title I	Other Governmental Funds	Total Governmental Funds
Fund Balance June 30, 2015	\$13,660,849	(\$432,611)	\$4,053,404	\$17,281,642
Fund Balance Correction	310,759	0	(310,759)	0
Restated Fund Balance June 30, 2015	<u>\$13,971,608</u>	<u>(\$432,611)</u>	<u>\$3,742,645</u>	<u>\$17,281,642</u>

	Governmental Activities
Net Position June 30, 2015	\$21,649,769
Capital Leases	310,224
Capital Assets	<u>(460,909)</u>
Restated Net Position June 30, 2015	<u>\$21,499,084</u>

Note 4 – Accountability and Compliance

Accountability

At June 30, 2016, the following funds had deficit fund balances:

Fund	Amount
Alternative Schools	\$21,959
Public School Preschool	44,487
Race to the Top	402,006
Non-ARRA School Improvement Competitive	4,461
Preschool Handicapped	4,479
Title VIR	41,936

The deficits are due to adjustments for accrued liabilities. The general fund is liable for any deficit in these funds and provides transfers when cash is required, rather than when accruals occur.

Compliance

Ohio Revised Code Section 5705.41(B) prohibits a subdivision from making an expenditure unless it has been appropriated as provided in Chapter 5705 of the Revised Code.

As of June 30, 2016, the following School District's funds had expenditures plus encumbrances which exceeded the funds appropriations, contrary to the above requirement:

East Cleveland City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2016

Fund	Appropriation	Expenditures Plus Encumbrances	Variance
Alternative Schools	\$124,562	\$209,906	\$85,344
Preschool Handicapped	28,739	31,448	2,709
District Managed Activities	227,494	265,801	38,307

This weakness may result in the School District spending more than their available resources.

Ohio Revised Code Section 5705.10(I) provides that money paid into a fund must be used only for the purposes for which such fund has been established.

The following funds in total had negative cash fund balances as of June 30, 2016:

Fund	Amount
Alternative Schools	\$35,131
Title VI-B	202,491
Vocational Education	23,093
Title I	1,690,517
Preschool Handicapped	7,210
Improving Teacher Quality State Grants	157,148

A fund with a negative cash fund balance indicates that money from another fund was used to pay the expenditures of that fund.

The Title I special revenue fund had original appropriations of \$5,759,076 in excess of estimated resources plus carryover balances of \$3,903,663 in violation of Section 5705.39, Ohio Revised Code.

The Title I special revenue fund had final appropriations of \$4,220,299 in excess of estimated resources plus carryover balances of \$3,169,453 in violation of Section 5705.39, Ohio Revised Code.

Note 5 – Budgetary Basis of Accounting

While the School District is reporting financial position, results of operations and changes in fund balance on the basis of generally accepted accounting principles (GAAP), the budgetary basis as provided by law is based upon accounting for certain transactions on a basis of cash receipts, disbursements and encumbrances. The statement of revenues, expenditures and changes in fund balances – budget (non-GAAP basis) and actual for the general fund and major special revenue fund is presented on the budgetary basis to provide a meaningful comparison of actual results with the budget.

The major differences between the budget basis and GAAP basis are as follows:

1. Revenues are recorded when received in cash (budget basis) as opposed to when susceptible to accrual (GAAP basis).
2. Expenditures are recorded when paid in cash (budget basis) as opposed to when the liability is incurred (GAAP basis).
3. Advances in and advances out are operating transactions (budget basis) as opposed to balance sheet transactions (GAAP basis).

East Cleveland City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2016

4. Encumbrances are treated as expenditures (budget basis) rather than restricted, committed or assigned fund balance (GAAP basis).
5. Budgetary revenues and expenditures of the public school support fund are reclassified to the general fund for GAAP reporting.
6. Unrecorded cash is not reported by the School District on the operating statements (budget), but is reported on the GAAP basis operating statements.
7. Investments are reported at fair value (GAAP) rather than cost (budget basis).

The following table summarizes the adjustments necessary to reconcile the GAAP basis statement to the budgetary basis statement for the general fund and title I special revenue fund.

Net Change in Fund Balances		
	General	Title I
GAAP Basis	(\$2,964,061)	\$672,474
Net Adjustment for Revenue Accruals	(903,625)	(612,152)
Advances In	114,020	0
Ending Unrecorded Cash	182,484	0
Beginning Fair Value Adjustment for Investmen	(107,025)	0
Ending Fair Value Adjustment for Investments	39,012	0
Net Adjustment for Expenditure Accruals	503,175	(13,578)
Advances Out	(570,137)	0
Perspective Differences:		
Public School Support	(2,573)	0
Adjustment for Encumbrances	(1,966,911)	(50,214)
Budget Basis	(\$5,675,641)	(\$3,470)

Note 6 – Deposits and Investments

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

Active deposits 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. 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.

East Cleveland City School District

*Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2016*

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, and Government National Mortgage Association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;
3. Written repurchase agreements in the securities listed above;
4. Bonds and other obligations of the State of Ohio;
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);
7. The State Treasurer's investment pool (STAR Ohio); and
8. Commercial paper and bankers acceptances if 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. Investments may only be made through specified dealers and institutions.

Deposits

Custodial Credit Risk 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 fiscal year end, \$7,526,996 of the School District's bank balance of \$8,031,227 was uninsured and uncollateralized. Although the collateral securities were held by the pledging financial institutions' trust department and all statutory requirements for the deposit of money had been followed, noncompliance with Federal requirements could potentially subject the School District to a successful claim by the FDIC.

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

Investments are reported at fair value. As of June 30, 2016, the School District had the following investments:

East Cleveland City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2016

Measurement/Investment	Measurement Amount	Maturity	Standard and Poor's Rating	Percentage of Total Investments
Net Asset Value (NAV) Per Share:				
STAR Ohio	\$440,314	48.6 Days	AAAm	N/A
Fair Value:				
Federal National Mortgage Association Bonds	2,514,290	Less than Two years	AA+	25.26 %
Federal Home Loan Mortgage Corporation Bonds	<u>7,000,448</u>	Less than Two years	AA+	70.32
Total Investments	<u>\$9,955,052</u>			

The School District categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets. Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs. The above chart identifies the School District's recurring fair value measurements as of June 30, 2016. All of the School District's investments measured at fair value are valued using quoted market prices (Level 1 inputs).

Interest Rate Risk As a means of limiting its exposure to fair value losses caused by rising interest rates, the School District's investment policy requires that operating funds be invested primarily in short-term investments maturing within five years from the date of purchase and that the School District's investment portfolio be structured so that securities mature to meet cash requirements for ongoing operations and/or long-term debt payments. The stated intent of the policy is to avoid the need to sell securities prior to maturity.

Credit Risk STAR Ohio carries a rating of AAAm by Standard and Poor's. Ohio law requires that STAR Ohio maintain the highest rating provided by at least one nationally recognized standard rating service. The School District has no investment policy that addresses credit risk.

Concentration of Credit Risk. The School District places no limit on the amount it may invest in any one issuer.

Note 7 – Receivables

Receivables at June 30, 2016, consisted of taxes, accounts (miscellaneous), intergovernmental and grants. All receivables are considered collectible in full due to the ability to foreclose for the nonpayment of taxes, the stable condition of State programs, and the current year guarantee of federal funds. All receivables except for delinquent property taxes are expected to be collected within one year. Property taxes, although ultimately collectible, include some portion of delinquencies that will not be collected within one year.

A summary of principal items of intergovernmental receivables follows:

East Cleveland City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2016

Governmental Activities	Amount
Title I	\$2,093,770
Title II-A	346,004
Title VI-B	345,232
Early Childhood Education	198,254
Title I School Improvement	162,000
Alternative Education	77,760
Carl Perkins	35,261
Non-ARRA School Improvement Competitive	15,195
ROTC Federal Reimbursement	5,496
Early Childhood Education	4,502
Total	\$3,283,474

Note 8 – 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 collections are received by the School District in the second half of the fiscal year. Second half tax distributions occur in the first half of the following fiscal year.

Property taxes include amounts levied against all real and public utility property located in the School District. Real property tax revenue received in calendar year 2016 represents collections of calendar year 2015 taxes. Real property taxes received in calendar year 2016 were levied after April 1, 2015, on the assessed value listed as of January 1, 2015, the lien date. Assessed values for real property taxes are established by State law at 35 percent of appraised market value. Real property taxes are payable annually or semi-annually. If paid annually, payment is due December 31; if paid semi-annually, the first payment is due December 31 with the remainder payable by June 20. Under certain circumstances, State statute permits alternate payment dates to be established.

Public utility property tax revenue received in calendar year 2016 represents collections of calendar year 2015 taxes. Public utility real and tangible personal property taxes received in calendar year 2016 became a lien December 31, 2014, were levied after April 1, 2015 and are collected in calendar year 2016 with real property taxes. Public utility real property is assessed at 35 percent of true value; public utility tangible personal property currently is assessed at varying percentages of true value.

The School District receives property taxes from Cuyahoga County. The County Fiscal Officer 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, 2016, are available to finance fiscal year 2017 operations. The amount available to be advanced can vary based on the date the tax bills are sent.

Accrued property taxes receivable includes real property and public utility property taxes which are measurable as of June 30, 2015 and for which there is an enforceable legal claim. Although total property tax collections for the next fiscal year are measurable, only the amount of real property taxes available as an advance at June 30 was levied to finance current fiscal year operations and is reported as revenue at fiscal year-end. The portion of the receivable not levied to finance current fiscal year operations is offset by a credit to deferred inflows of resources – property taxes.

East Cleveland City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2016

The amount available as an advance at June 30, 2016, was \$1,794,025 in the general fund, \$219,519 in the general obligation bond retirement debt service fund and \$17,646 in the classroom facilities maintenance capital projects fund. The amount available as an advance at June 30, 2015, was \$1,917,798 in the general fund, \$228,304 in the general obligation bond retirement debt service fund, and \$21,868 in the classroom facilities maintenance capital projects fund.

On a full accrual basis, collectible delinquent property taxes have been recorded as a receivable and revenue, while on a modified accrual basis the revenue has been reported as deferred inflows of resources – unavailable revenue.

The assessed values upon which the fiscal year 2016 taxes were collected are:

	2015 First Half Collections		2016 First Half Collections	
	Amount	Percent	Amount	Percent
Real Estate				
Residential/Agricultural	\$129,725,760	69.44 %	\$107,838,160	69.42 %
Other Real Estate	45,192,110	24.19	35,337,270	22.75
Tangible Personal Property				
Public Utility	11,887,910	6.37	12,159,150	7.83
Total	\$186,805,780	100.00 %	\$155,334,580	100.00 %
Tax rate per \$1,000 of assessed valuation		\$94.10		\$94.10

Note 9 – Fund Balances

Fund balance is classified as nonspendable, restricted, committed, assigned and/or unassigned based primarily on the extent to which the School District is bound to observe constraints imposed upon the use of the resources in the government funds. The constraints placed on fund balance for the major governmental funds and all other governmental funds are presented as follows:

Fund Balances	General	Title I	Other Governmental Funds	Total
<i>Nonspendable:</i>				
Unclaimed Monies	\$85,020	\$0	\$0	\$85,020
Inventory	0	0	3,641	3,641
Prepays	98,179	4,330	6,158	108,667
<i>Total Nonspendable</i>	183,199	4,330	9,799	197,328
<i>Restricted for:</i>				
Food Service Operations	0	0	1,175,461	1,175,461
College Scholarships	0	0	188,266	188,266
Athletics and Music	0	0	178,093	178,093
Vocational Education	0	0	72,482	72,482
Technology Improvements	0	0	18,250	18,250
Educational Services	0	235,533	514,501	750,034
Remedial Reading	0	0	22,418	22,418
Student Services	0	0	22,441	22,441
Debt Service Payments	0	0	2,251,498	2,251,498
Capital Improvements	0	0	675,603	675,603
<i>Total Restricted</i>	\$0	\$235,533	\$5,119,013	\$5,354,546

(continued)

East Cleveland City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2016

Fund Balances	General	Title I	Other Governmental Funds	Total
<i>Assigned to:</i>				
Public School Support Services	\$33,571	\$0	\$0	\$33,571
Fiscal Year 2017 Appropriations	2,501,066	0	0	2,501,066
Purchases on Order:				
Instruction	824,707	0	0	824,707
Support Services	1,003,735	0	0	1,003,735
<i>Total Assigned</i>	<u>4,363,079</u>	<u>0</u>	<u>0</u>	<u>4,363,079</u>
<i>Unassigned (Deficit)</i>	<u>5,839,751</u>	<u>0</u>	<u>(520,697)</u>	<u>5,319,054</u>
Total	<u>\$10,386,029</u>	<u>\$239,863</u>	<u>\$4,608,115</u>	<u>\$15,234,007</u>

Note 10 – Contingencies

Grants

The School District received financial assistance from federal and State agencies in the form of grants. The expenditure of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and is 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, 2016.

School Foundation

School District Foundation funding is based on the annualized full-time equivalent (FTE) enrollment of each student. Effective for fiscal year 2016, traditional school districts must comply with minimum hours of instruction, instead of a minimum number of school days each year. The funding formula the Ohio Department of Education (ODE) is legislatively required to follow will continue to adjust as enrollment information is updated by the School District, which can extend past the fiscal year-end. As of the date of this report, ODE has not finalized the impact of enrollment adjustments to the June 30, 2016 Foundation funding for the School District; therefore, the financial statement impact is not determinable at this time. ODE and management believe this will result in either a receivable to or liability of the School District.

Litigation

The School District is a 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.

East Cleveland City School District

*Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2016*

Note 11 – Risk Management

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 2016, the School District contracted with Liberty Mutual Insurance Company for property insurance of \$166,112,211, fleet insurance of \$1,000,000 and liability coverage of \$1,000,000 per occurrence with no deductible.

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

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

Workers' Compensation

For fiscal year 2016, the School District participated in the Ohio School Boards' Association Workers' Compensation Group Rating Program (GRP), an insurance purchasing pool (Note 15). The intent of the GRP is to achieve the benefit of a reduced premium for the School District by virtue of its grouping and representation with other participants in the GRP. The workers' compensation experience of the participating school districts is calculated as one experience and a common premium rate is applied to all school districts in the GRP. Each participant pays its workers' compensation premium to the State based on the rate for the GRP rather than its individual rate. Participation in the GRP is limited to school districts that can meet the GRP's selection criteria. The firm of Comp Management Company provides administrative, cost control and actuarial services to the GRP.

Employee Benefits

The School District has contracted with Anthem to provide employee medical, surgical, prescription drug and dental benefits. The School District pays \$2,183 for family coverage, \$1,454 for single plus one coverage and \$724 for single coverage per month. The employees pay five percent of the premium through a payroll deduction.

The School District provides life insurance and accidental death and dismemberment insurance in the amount of one times their salary for teachers, \$40,000 for classified employees and part-time employees, and one and one-half times their salaries for administrators. The insurance is provided through Fort Dearborn Life Insurance Company.

Note 12 – Interfund Transactions

Balances

Interfund balances at June 30, 2016 consisted of the following:

East Cleveland City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2016

Interfund Payable	Interfund Receivable			Total
	General	Title I	Other Governmental Funds	
General	\$0	\$1,549,999	\$1,218,207	\$2,768,206
Title I	1,690,517	0	0	1,690,517
Other Governmental Funds	2,070,636	0	288,998	2,359,634
Total	\$3,761,153	\$1,549,999	\$1,507,205	\$6,818,357

The interfund receivable and payables are due to the general fund covering deficit cash balances in these funds and moving unrestricted balances to support programs accounted for in other funds. The interfund payable in the general fund is a result of various funds repaying more than required in the previous year.

Transfers

During fiscal year 2016, the general fund transferred \$228,193 to other governmental funds to support programs and projects accounted for in other funds.

Note 13 – Capital Assets

Capital asset activity for the fiscal year ended June 30, 2016, was as follows:

	Restated Balance 6/30/15	Additions	Deletions	Balance 6/30/16
Governmental Activities				
<i>Capital Assets, not being depreciated:</i>				
Land	\$2,389,900	\$0	\$0	\$2,389,900
<i>Capital Assets, being depreciated:</i>				
Land Improvements	2,433,817	0	0	2,433,817
Buildings and Improvements	97,098,625	0	0	97,098,625
Furniture and Equipment	6,446,295	773,962	(51,988)	7,168,269
Vehicles	541,048	0	0	541,048
Textbooks	1,853,856	0	0	1,853,856
<i>Total Capital Assets, being Depreciated</i>	<u>108,373,641</u>	<u>773,962</u>	<u>(51,988)</u>	<u>109,095,615</u>
Less Accumulated Depreciation:				
Land Improvements	(1,116,708)	(117,384)	0	(1,234,092)
Buildings and Improvements	(28,734,541)	(2,348,129)	0	(31,082,670)
Furniture and Equipment	(5,904,230)	(183,804)	46,284	(6,041,750)
Vehicles	(467,537)	(13,007)	0	(480,544)
Textbooks	(1,853,856)	0	0	(1,853,856)
<i>Total Accumulated Depreciation</i>	<u>(38,076,872)</u>	<u>(2,662,324) *</u>	<u>46,284</u>	<u>(40,692,912)</u>
<i>Total Capital Assets, being Depreciated, Net</i>	<u>70,296,769</u>	<u>(1,888,362)</u>	<u>(5,704)</u>	<u>68,402,703</u>
<i>Governmental Activities Capital Assets, Net</i>	<u>\$72,686,669</u>	<u>(\$1,888,362)</u>	<u>(\$5,704)</u>	<u>\$70,792,603</u>

* Depreciation expense was charged to governmental functions as follows:

East Cleveland City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2016

Instruction:	
Regular	\$2,519,114
Vocational	13,757
Support Services:	
Instructional Staff	26,780
Administration	5,455
Business	1,303
Operation and Maintenance of Plant	3,769
Pupil Transportation	12,891
Central	17,086
Operation of Non-Instructional Services	45,102
Extracurricular Activities	17,067
<i>Total Depreciation Expense</i>	<u><u>\$2,662,324</u></u>

Note 14 – Compensated Absences

The criteria for determining vacation and sick leave benefits is derived from negotiated agreements and State laws. Classified employees earn ten to twenty days of vacation per year, depending upon length of service and hours worked. Accumulated unused vacation time is paid to classified employees upon termination of employment. Teachers do not earn vacation time.

Each employee earns sick leave at a rate of one and one-fourth days per month. Sick leave may be accumulated to a maximum of 365 days (certificated employees and administrators) and 305 days (non-certificated employees). Upon retirement after 25 years of service, payment is made equal to 35 percent of the accumulated and unused sick leave days for non-certificated employees. Certificated employees who submit their retirement in writing on or before March 31, to be effective the last day of the school year and who were employed prior to July 1, 2002, receive payment equal to 50 percent of their accumulated and unused sick leave days. Certificated employees who submit their retirement in writing on or before March 31, to be effective the last day of the school year and who were employed on or after July 1, 2002, receive payment equal to 35 percent of their accumulated and unused sick leave days. Retirements announced for certificated employees after March 31, receive payment equal to 25 percent of their accumulated and unused sick leave days. For purposes of retirement, the employee receiving such payment must meet the eligibility requirement provisions set by STRS or SERS.

Note 15 – Public Entity Risk Pool

Insurance Purchasing Pool

The School District participates in the Ohio School Boards' Association Workers' Compensation Group Rating Program (GRP), an insurance purchasing pool. The GRP'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 program. Each year, the participating school districts pay an enrollment fee to the GRP to cover the costs of administering the program.

East Cleveland City School District

*Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2016*

Note 16 – 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. Financial information can be obtained from the East Cleveland Public Library, Mr. Ross Cockfield, Fiscal Officer, at 14101 Euclid Avenue, East Cleveland, Ohio 44112.

Note 17 – Jointly Governed Organizations

Connect North Coast Council, which became Connect effective April 1, 2016, is a jointly governed organization comprised of twenty-four member school districts, three educational service centers and the Ohio Schools Council. The jointly governed organization was formed for the purpose of providing support and leadership which enables organizations to achieve their objectives through innovative and cost effective shared technology solutions. Connect is governed by a four member Board of Directors consisting of the Superintendent of the Educational Service Center of Cuyahoga County, the Superintendent of the Educational Service Center of Lorain County, the Superintendent of the Educational Service Center of Medina County and the Executive Director of the Ohio Schools Council. The degree of control exercised by any participating school district is limited to its representation of the Governing Board. The Board exercises total control over the operation of the organization including budgeting, appropriating, contracting and designating management. Each participating entity's contribution to Connect is dependent upon student enrollment and/or software packages and services utilized. Financial information for Connect can be obtained by contacting the Treasurer at the Cuyahoga County Educational Service Center, which serves as fiscal agent. During fiscal year 2016, the School District contributed \$70,295 to Connect. Financial information can be obtained by contacting the Treasurer of the fiscal agent at 6393 Oak Tree Boulevard, Independence, Ohio 44131.

Ohio Schools' Council Association The Ohio Schools Council Association (Council) is a jointly governed organization among 196 school districts. The jointly governed organization was created by school districts for the purpose of saving money through volume purchases. Each district supports the Council by paying an annual participation fee. Each school district member's superintendent serves as a representative of the Assembly. The Council's Board exercises total control over the operations of the organization including budgeting, appropriating, contracting and designating management. Each participant's degree of control is limited to its representation on the Board. The Assembly elects five of the Council's Board members and the remaining four are representatives of the Greater Cleveland School Superintendents' Association. The Council operates under a nine-member Board of Directors (the Board). The Board is the policy making authority of the Council. The Board meets monthly September to June. The Board appoints an Executive Director who is responsible for receiving and disbursing funds, investing available funds, preparing financial reports for the Board and Assembly and carrying out such other responsibilities as designated by the Board. In fiscal year 2016, the School District paid \$1,037 to the Council. Financial information can be obtained by contacting William Zelei, the Executive Director of the Ohio Schools Council at 6393 Oak Tree Boulevard, Suite 377, Independence, Ohio 44131.

East Cleveland City School District

*Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2016*

The School District participates in the natural gas purchase program. This program allows the School District to purchase natural gas at reduced rates. Compass Energy served as the natural gas supplier and program manager from October 1, 2010, to March 31, 2013. Compass Energy has also been selected as the supplier and program manager for the period for the period from April 1, 2013, through March 31, 2016. There are currently 151 participants in the program, including the East Cleveland City School District. The participants make monthly payments based on estimated usage. Each September, these estimated payments are compared to their actual usage for the year (July to June). Districts that paid more in estimated billings than their actual billings are issued credits on future billings beginning in September until the credits are exhausted and districts that did not pay enough on estimated billings are invoiced for the difference on the September monthly estimated billing.

The School District also participates in the Council's current electric purchase program. The Power 4 Schools Program provides a fixed price rate for electricity supplied by First Energy Solutions of \$0.0602 per kwh for the generation of electricity. There are currently 251 participants in the program including the East Cleveland City School District. School districts are not charged a fee by OSC to participate in this program. School districts pay the utility (Ohio Edison, Toledo Edison or Cleveland Electric Illuminating Co.) directly and receive a discount for the fixed price of generation.

Note 18 – Long Term Obligations

The original issue date, interest rate, original issue amount and date of maturity of each of the School District's long-term obligations follows:

Debt Issue	Original Issue Date	Original Issue Amount	Interest Rate	Date of Maturity
<i>General Obligation Bonds:</i>				
School Improvement Refunding Bonds	2007	\$5,645,000	4.00-5.50%	December 1, 2020

The changes in the School District's long-term obligations during the fiscal year consist of the following:

	Restated Principal Outstanding 6/30/15	Additions	(Reductions)	Principal Outstanding 6/30/16	Amount Due in One Year
Governmental Activities:					
<i>General Obligations Bonds:</i>					
School Improvement Refunding - 2007:					
Serial Bonds	\$4,005,000	\$0	(\$595,000)	\$3,410,000	\$615,000
Unamortized Premium	171,731	0	(31,704)	140,027	0
<i>Total General Obligation Bonds</i>	<u>4,176,731</u>	<u>0</u>	<u>(626,704)</u>	<u>3,550,027</u>	<u>615,000</u>
<i>Other Long-Term Obligations:</i>					
Net Pension Liability:					
STRS	47,228,977	1,232,962	0	48,461,939	0
SERS	11,160,847	3,133,885	0	14,294,732	0
Total Net Pension Liability	58,389,824	4,366,847	0	62,756,671	0
Capital Lease	172,372	773,962	(99,882)	846,452	170,637
Compensated Absences	4,462,436	1,276,616	(1,092,365)	4,646,687	1,234,011
<i>Total Other Long-Term Obligations</i>	<u>63,024,632</u>	<u>6,417,425</u>	<u>(1,192,247)</u>	<u>68,249,810</u>	<u>1,404,648</u>
<i>Total Governmental Activities</i>	<u>\$67,201,363</u>	<u>\$6,417,425</u>	<u>(\$1,818,951)</u>	<u>\$71,799,837</u>	<u>\$2,019,648</u>

East Cleveland City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2016

In August 2007, the School District issued school improvement refunding bonds having an original face value of \$5,645,000. The bonds were issued at a \$422,721 premium and issuance costs were \$138,463.

The refunding bonds were issued to defease the 1999 school improvement general obligation term bonds by placing the proceeds of the new bonds in an irrevocable trust to provide for all future debt service payments. Accordingly, the trust account assets and the liability for the defeased bonds are not included in the School District's financial statements. School improvement refunding bonds will be paid from the bond retirement fund.

The overall debt margin of the School District as of June 30, 2016, was \$12,821,610 with an unvoted debt margin of \$155,335. Principal and interest requirements to retire general obligation bonds outstanding at June 30, 2016, are as follows:

	General Obligation Bonds	
	Principal	Interest
2017	\$615,000	\$166,794
2018	645,000	135,988
2019	680,000	99,550
2020	715,000	61,187
2021	755,000	20,762
Total	\$3,410,000	\$484,281

All general obligation bonds will be paid from property taxes reported within the bond retirement debt service fund. The School District pays obligations related to employee compensation from the fund benefitting from their service. Payments related to the capital lease are paid from the general fund. Compensated absences will be paid from the general, food service, public school preschool, title VI-B, vocational education, title I, and class size reduction grant special revenue funds.

Note 19 – Leases

Capital Leases

In fiscal years 2015 and 2016, the School District entered into capitalized lease obligations for the purchase of copiers. The leases meet the criteria for capital leases and have been recorded on the government-wide statements. The original amounts capitalized for the capital leases and their book values as of June 30, 2016 are as follows:

	Amounts
Assets:	
Equipment	\$976,834
Less: Accumulated Depreciation	(79,272)
Current Book Value	\$897,562

The following is a schedule of the future minimum leases payments required under the capital lease and the present value of the minimum lease payments as of June 30, 2016.

East Cleveland City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2016

	Amounts
2017	\$254,393
2018	199,881
2019	218,052
2020	172,284
2021	86,144
Total Minimum Lease Payments	930,754
Less: Amount Representing Interest	(84,302)
Present Value of Minimum Lease Payments	\$846,452

Operating Leases

In prior fiscal years, the School District entered into an operating lease with City Management Group, Limited, for the purpose of leasing a bus garage and warehouse to house the School District's buses and maintenance equipment. This is a cancelable lease that is renewed annually. The School District pays \$4,000 per month. For fiscal year 2016, the School District paid rental costs of \$48,000. The School District must provide the lessor written notice at least 90 days prior to termination of the lease.

Note 20 – 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 acquisition and construction of capital improvements. Amounts not spent by fiscal year end or offset by similarly restricted resources received during the fiscal year must be held in cash at fiscal year end and carried forward to be used for the same purposes in future fiscal years.

The following cash basis information describes the change in the fiscal year end set aside amounts for capital acquisition. Disclosure of this information is required by State statute.

	Capital Improvement
Set-aside Balances as of June 30, 2015	(\$9,906,596)
Current Year Set-aside Requirement	418,976
Levy Proceeds Offsets	(75,794)
Qualifying Disbursements	(632,242)
Totals	(\$10,195,656)
Set-aside Balance Carried Forward to Future Fiscal Years	(\$10,195,656)
Set-aside Balances as of June 30, 2016	\$0

Note 21 – Encumbrances

Encumbrances are commitments related to unperformed contracts for goods or services. Encumbrance accounting is utilized to the extent necessary to assure effective budgetary control and accountability and to facilitate effective cash planning and control. At fiscal year end the amount of encumbrances expected to be honored upon performance by the vendor in the next fiscal year were as follows:

East Cleveland City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2016

General	\$1,966,911
Title I	50,214
Other Governmental Funds	240,394
Total	\$2,257,519

Note 22 – Defined Benefit Pension Plans

Net Pension Liability

The net pension liability reported on the statement of net position represents a liability to employees for pensions. Pensions are a component of exchange transactions—between an employer and its employees—of salaries and benefits for employee services. Pensions are provided to an employee—on a deferred-payment basis—as part of the total compensation package offered by an employer for employee services each financial period. The obligation to sacrifice resources for pensions is a present obligation because it was created as a result of employment exchanges that already have occurred.

The net pension liability represents the School District’s proportionate share of each pension plan’s collective actuarial present value of projected benefit payments attributable to past periods of service, net of each pension plan’s fiduciary net position. The net pension liability calculation is dependent on critical long-term variables, including estimated average life expectancies, earnings on investments, cost of living adjustments and others. While these estimates use the best information available, unknowable future events require adjusting this estimate annually.

Ohio Revised Code limits the School District’s obligation for this liability to annually required payments. The School District cannot control benefit terms or the manner in which pensions are financed; however, the School District does receive the benefit of employees’ services in exchange for compensation including pension.

GASB 68 assumes the liability is solely the obligation of the employer, because (1) they benefit from employee services; and (2) State statute requires all funding to come from these employers. All contributions to date have come solely from these employers (which also includes costs paid in the form of withholdings from employees). State statute requires the pension plans to amortize unfunded liabilities within 30 years. If the amortization period exceeds 30 years, each pension plan’s board must propose corrective action to the State legislature. Any resulting legislative change to benefits or funding could significantly affect the net pension liability. Resulting adjustments to the net pension liability would be effective when the changes are legally enforceable.

The proportionate share of each plan’s unfunded benefits is presented as a long-term *net pension liability* on the accrual basis of accounting. Any liability for the contractually-required pension contribution outstanding at the end of the year is included in *intergovernmental payable* on both the accrual and modified accrual bases of accounting.

Plan Description - School Employees Retirement System (SERS)

Plan Description – School District non-teaching employees participate in SERS, a cost-sharing multiple-employer defined benefit pension plan administered by SERS. SERS provides retirement, disability and survivor benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries.

East Cleveland City School District

*Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2016*

Authority to establish and amend benefits is provided by Ohio Revised Code Chapter 3309. SERS issues a publicly available, stand-alone financial report that includes financial statements, required supplementary information and detailed information about SERS' fiduciary net position. That report can be obtained by visiting the SERS website at www.ohsers.org under Employers/Audit Resources.

Age and service requirements for retirement are as follows:

	Eligible to Retire on or before August 1, 2017 *	Eligible to Retire on or after August 1, 2017
Full Benefits	Any age with 30 years of service credit	Age 67 with 10 years of service credit; or Age 57 with 30 years of service credit
Actuarially Reduced Benefits	Age 60 with 5 years of service credit Age 55 with 25 years of service credit	Age 62 with 10 years of service credit; or Age 60 with 25 years of service credit

* Members with 25 years of service credit as of August 1, 2017, will be included in this plan.

Annual retirement benefits are calculated based on final average salary multiplied by a percentage that varies based on year of service; 2.2 percent for the first thirty years of service and 2.5 percent for years of service credit over 30. Final average salary is the average of the highest three years of salary.

One year after an effective benefit date, a benefit recipient is entitled to a three percent cost-of-living adjustment (COLA). This same COLA is added each year to the base benefit amount on the anniversary date of the benefit.

Funding Policy – Plan members are required to contribute 10 percent of their annual covered salary and the School District is required to contribute 14 percent of annual covered payroll. The contribution requirements of plan members and employers are established and may be amended by the SERS' Retirement Board up to statutory maximum amounts of 10 percent for plan members and 14 percent for employers. The Retirement Board, acting with the advice of the actuary, allocates the employer contribution rate among four of the System's funds (Pension Trust Fund, Death Benefit Fund, Medicare B Fund, and Health Care Fund). For the fiscal year ended June 30, 2016, the allocation to pension, death benefits, and Medicare B was 14 percent. No allocation was made to the Health Care Fund.

The School District's contractually required contribution to SERS was \$871,457 for fiscal year 2016. Of this amount \$47,489 is reported as an intergovernmental payable.

Plan Description - State Teachers Retirement System (STRS)

Plan Description – School District licensed teachers and other faculty members participate in STRS Ohio, a cost-sharing multiple employer public employee retirement system administered by STRS. STRS provides retirement and disability benefits to members and death and survivor benefits to beneficiaries. STRS issues a stand-alone financial report that includes financial statements, required supplementary information, and detailed information about STRS' fiduciary net position. That report can be obtained by writing to STRS, 275 E. Broad St., Columbus, OH 43215-3771, by calling (888) 227-7877, or by visiting the STRS Web site at www.strsoh.org.

East Cleveland City School District

Notes to the Basic Financial Statements For the Fiscal Year Ended June 30, 2016

New members have a choice of three retirement plans; a Defined Benefit (DB) Plan, a Defined Contribution (DC) Plan, and a Combined Plan. Benefits are established by Ohio Revised Code Chapter 3307.

The DB plan offers an annual retirement allowance based on final average salary multiplied by a percentage that varies based on years of service. Effective August 1, 2015, the calculation is 2.2 percent of final average salary for the five highest years of earnings multiplied by all years of service. With certain exceptions, the basic benefit is increased each year by two percent of the original base benefit. For members retiring August 1, 2013, or later, the first two percent is paid on the fifth anniversary of the retirement benefit. Members are eligible to retire at age 60 with five years of qualifying service credit, or age 55 with 25 years of service, or 30 years of service regardless of age. Age and service requirements for retirement will increase effective August 1, 2015, and will continue to increase periodically until they reach age 60 with 35 years of service or age 65 with five year of service on August 1, 2026.

The DC Plan allows members to place all their member contributions and 9.5 percent of the 14 percent employer contributions into an investment account. Investment allocation decisions are determined by the member. The remaining 4.5 percent of the 14 percent employer rate is allocated to the defined benefit unfunded liability. A member is eligible to receive a retirement benefit at age 50 and termination of employment. The member may elect to receive a lifetime monthly annuity or a lump sum withdrawal.

The Combined Plan offers features of both the DB Plan and the DC Plan. In the Combined Plan, 11 percent of the 12 percent member rate goes to the DC Plan and 1 percent goes to the DB Plan. Member contributions to the DC Plan are allocated among investment choices by the member, and contributions to the DB Plan from the employer and the member are used to fund the defined benefit payment at a reduced level from the regular DB Plan. The defined benefit portion of the Combined Plan payment is payable to a member on or after age 60 with five years of services. The defined contribution portion of the account may be taken as a lump sum payment or converted to a lifetime monthly annuity at age 50.

New members who choose the DC plan or Combined Plan will have another opportunity to reselect a permanent plan during their fifth year of membership. Members may remain in the same plan or transfer to another STRS plan. The optional annuitization of a member's defined contribution account or the defined contribution portion of a member's Combined Plan account to a lifetime benefit results in STRS bearing the risk of investment gain or loss on the account. STRS has therefore included all three plan options as one defined benefit plan for GASB 68 reporting purposes.

A DB or Combined Plan member with five or more years of credited service who is determined to be disabled may qualify for a disability benefit. Eligible survivors of members who die before service retirement may qualify for monthly benefits. New members on or after July 1, 2013, must have at least ten years of qualifying service credit that apply for disability benefits. Members in the DC Plan who become disabled are entitled only to their account balance. If a member of the DC Plan dies before retirement benefits begin, the member's designated beneficiary is entitled to receive the member's account balance.

Funding Policy – Employer and member contribution rates are established by the State Teachers Retirement Board and limited by Chapter 3307 of the Ohio Revised Code. For the fiscal year ended June 30, 2016, plan members were required to contribute 13 percent of their annual covered salary. Effective July 1, 2016, the statutory maximum employee contribution rate was increased one percent to 14 percent. The School District was required to contribute 14 percent; the entire 14 percent was the portion used to fund pension obligations. The fiscal year 2016 contribution rates were equal to the statutory maximum rates.

The School District's contractually required contribution to STRS was \$2,567,886 for fiscal year 2016. Of this amount \$584,717 is reported as an intergovernmental payable.

East Cleveland City School District

*Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2016*

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

The net pension liability was measured as of June 30, 2015, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The School District's proportion of the net pension liability was based on the School District's share of contributions to the pension plan relative to the contributions of all participating entities. Following is information related to the proportionate share and pension expense:

	<u>SERS</u>	<u>STRS</u>	<u>Total</u>
Proportion of the Net Pension Liability			
Prior Measurement Date	0.22052900%	0.19417047%	
Proportion of the Net Pension Liability			
Current Measurement Date	<u>0.25051680%</u>	<u>0.17535119%</u>	
Change in Proportionate Share	<u>0.02998780%</u>	<u>-0.01881928%</u>	
Proportionate Share of the Net			
Pension Liability	\$14,294,732	\$48,461,939	\$62,756,671
Pension Expense	\$1,284,605	\$1,113,244	\$2,397,849

At June 30, 2016, the School District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>SERS</u>	<u>STRS</u>	<u>Total</u>
Deferred Outflows of Resources			
Differences between expected and actual experience	\$230,171	\$2,209,253	\$2,439,424
Changes in proportionate Share and difference between School District contributions and proportionate share of contributions	1,184,782	0	1,184,782
School District contributions subsequent to the measurement date	<u>871,457</u>	<u>2,567,887</u>	<u>3,439,344</u>
Total Deferred Outflows of Resources	<u>\$2,286,410</u>	<u>\$4,777,140</u>	<u>\$7,063,550</u>
Deferred Inflows of Resources			
Net difference between projected and actual earnings on pension plan investments	\$473,631	\$3,485,330	\$3,958,961
Changes in Proportionate Share and Difference between School District contributions and proportionate share of contributions	<u>0</u>	<u>4,361,875</u>	<u>4,361,875</u>
Total Deferred Inflows of Resources	<u>\$473,631</u>	<u>\$7,847,205</u>	<u>\$8,320,836</u>

\$3,439,344 reported as deferred outflows of resources related to pension resulting from School District contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ending June 30, 2017. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pension will be recognized in pension expense as follows:

East Cleveland City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2016

Fiscal Year Ending June 30:	SERS	STRS	Total
2017	\$206,523	(\$1,876,992)	(\$1,670,469)
2018	206,523	(1,876,992)	(1,670,469)
2019	205,433	(1,876,992)	(1,671,559)
2020	322,843	(6,976)	315,867
Total	\$941,322	(\$5,637,952)	(\$4,696,630)

Actuarial Assumptions - SERS

SERS' total pension liability was determined by their actuaries in accordance with GASB Statement No. 67, as part of their annual actuarial valuation for each defined benefit retirement plan. Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts (e.g., salaries, credited service) and assumptions about the probability of occurrence of events far into the future (e.g., mortality, disabilities, retirements, employment termination). Actuarially determined amounts are subject to continual review and potential modifications, as actual results are compared with past expectations and new estimates are made about the future.

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employers and plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing benefit costs between the employers and plan members to that point. The projection of benefits for financial reporting purposes does not explicitly incorporate the potential effects of legal or contractual funding limitations.

Actuarial calculations reflect a long-term perspective. For a newly hired employee, actuarial calculations will take into account the employee's entire career with the employer and also take into consideration the benefits, if any, paid to the employee after termination of employment until the death of the employee and any applicable contingent annuitant. In many cases actuarial calculations reflect several decades of service with the employer and the payment of benefits after termination.

Key methods and assumptions used in calculating the total pension liability in the latest actuarial valuation, prepared as of June 30, 2015, are presented below:

Wage Inflation	3.25 percent
Future Salary Increases, including inflation	4.00 percent to 22 percent
COLA or Ad Hoc COLA	3 percent
Investment Rate of Return	7.75 percent net of investments expense, including inflation
Actuarial Cost Method	Entry Age Normal

For post-retirement mortality, the table used in evaluating allowances to be paid is the 1994 Group Annuity Mortality Table set back one year for both men and women. Special mortality tables are used for the period after disability retirement.

The most recent experience study was completed June 30, 2010.

East Cleveland City School District

*Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2016*

The long-term return expectation for the Pension Plan Investments has been determined using a building-block approach and assumes a time horizon, as defined in SERS' *Statement of Investment Policy*. A forecasted rate of inflation serves as the baseline for the return expectation. Various real return premiums over the baseline inflation rate have been established for each asset class. The long-term expected nominal rate of return has been determined by calculating an arithmetic weighted averaged of the expected real return premiums for each asset class, adding the projected inflation rate, and adding the expected return from rebalanced uncorrelated asset classes. The target allocation and best estimate of arithmetic real rates of return for each major asset class are summarized in the following table:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Cash	1.00 %	0.00 %
US Stocks	22.50	5.00
Non-US Stocks	22.50	5.50
Fixed Income	19.00	1.50
Private Equity	10.00	10.00
Real Assets	10.00	5.00
Multi-Asset Strategies	15.00	7.50
Total	<u>100.00 %</u>	

Discount Rate The total pension liability was calculated using the discount rate of 7.75 percent. The projection of cash flows used to determine the discount rate assumed the contributions from employers and from the members would be computed based on contribution requirements as stipulated by State statute. Projected inflows from investment earning were calculated using the long-term assumed investment rate of return (7.75 percent). Based on those assumptions, the plan's fiduciary net position was projected to be available to make all future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefits to determine the total pension liability.

Sensitivity of the School District's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate Net pension liability is sensitive to changes in the discount rate, and to illustrate the potential impact the following table presents the net pension liability calculated using the discount rate of 7.75 percent, as well as what each plan's net pension liability would be if it were calculated using a discount rate that is one percentage point lower (6.75 percent), or one percentage point higher (8.75 percent) than the current rate.

	<u>1% Decrease (6.75%)</u>	<u>Current Discount Rate (7.75%)</u>	<u>1% Increase (8.75%)</u>
School District's proportionate share of the net pension liability	\$19,821,656	\$14,294,732	\$9,640,605

Actuarial Assumptions - STRS

The total pension liability in the June 30, 2015, actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

East Cleveland City School District

*Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2016*

Inflation	2.75 percent
Projected salary increases	12.25 percent at age 20 to 2.75 percent at age 70
Investment Rate of Return	7.75 percent, net of investment expenses
Cost-of-Living Adjustments (COLA)	2 percent simple applied as follows: for members retiring before August 1, 2013, 2 percent per year; for members retiring August 1, 2013, or later, 2 percent COLA commences on fifth anniversary of retirement date.

Mortality rates were based on the RP-2000 Combined Mortality Table (Projection 2022—Scale AA) for Males and Females. Males’ ages are set-back two years through age 89 and no set-back for age 90 and above. Females younger than age 80 are set back four years, one year set back from age 80 through 89, and no set back from age 90 and above.

Actuarial assumptions used in the June 30, 2015, valuation are based on the results of an actuarial experience study, effective July 1, 2012.

The 10 year expected real rate of return on pension plan investments was determined by STRS’ investment consultant which develops best estimates for the investment return assumption based on the target allocation adopted by the Retirement Board. The target allocation and long-term expected rate of return for each major asset class are summarized as follows:

Asset Class	Target Allocation	10 Year Expected Nominal Rate of Return *
Domestic Equity	31.00 %	8.00 %
International Equity	26.00	7.85
Alternatives	14.00	8.00
Fixed Income	18.00	3.75
Real Estate	10.00	6.75
Liquidity Reserves	1.00	3.00
Total	100.00 %	

* 10 year annualized geometric nominal returns include the real rate of return and inflation of 2.5 percent.

Discount Rate The discount rate used to measure the total pension liability was 7.75 percent as of June 30, 2015. The projection of cash flows used to determine the discount rate assumes member and employer contributions will be made at the statutory contribution rates in accordance with rate increases described above. For this purpose, only employer contributions that are intended to fund benefits of current plan members and their beneficiaries are included. Projected employer contributions that are intended to fund the service costs of future plan members and their beneficiaries, as well as projected contributions from future plan members, are not included. Based on those assumptions, STRS’ fiduciary net position was projected to be available to make all projected future benefit payments to current plan members as of June 30, 2015. Therefore, the long-term expected rate of return on pension plan investments of 7.75 percent was applied to all periods of projected benefit payment to determine the total pension liability as of June 30, 2015.

East Cleveland City School District

*Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2016*

Sensitivity of the School District's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate The following table presents the School District's proportionate share of the net pension liability calculated using the current period discount rate assumption of 7.75 percent, as well as what the School District's proportionate share of the net pension liability would be if it were calculated using a discount rate that is one-percentage-point lower (6.75 percent) or one-percentage-point higher (8.75 percent) than the current rate:

	1% Decrease (6.75%)	Current Discount Rate (7.75%)	1% Increase (8.75%)
School District's proportionate share of the net pension liability	\$67,317,290	\$48,461,939	\$32,516,930

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 Employees Retirement System. As of June 30, 2016, two members of the Board of Education have elected Social Security. The Board's liability is 6.2 percent of wages.

Note 23 – Postemployment Benefits

School Employees Retirement System

Health Care Plan Description - The School District contributes to the SERS Health Care Fund, administered by SERS for non-certificated retirees and their beneficiaries. For GASB 45 purposes, this plan is considered a cost-sharing, multiple-employer, defined benefit other postemployment benefit (OPEB) plan. The Health Care Plan includes hospitalization and physicians' fees through several types of plans including HMO's, PPO's, Medicare Advantage, and traditional indemnity plans as well as a prescription drug program. The financial report of the Plan is included in the SERS Comprehensive Annual Financial Report which can be obtained on SERS' website at www.ohsers.org under Employers/Audit Resources.

Access to health care for retirees and beneficiaries is permitted in accordance with Section 3309 of the Ohio Revised Code. The Health Care Fund was established and is administered in accordance with Internal Revenue Code Section 105(e). SERS' Retirement Board reserves the right to change or discontinue any health plan or program. Health care is financed through a combination of employer contributions and retiree premiums, copays and deductibles on covered health care expenses, investment returns, and any funds received as a result of SERS' participation in Medicare programs. Active employee members do not contribute to the Health Care Plan. Retirees and their beneficiaries are required to pay a health care premium that varies depending on the plan selected, the number of qualified years of service, Medicare eligibility and retirement status.

Funding Policy - State statute permits SERS to fund the health care benefits through employer contributions. Each year, after the allocation for statutorily required basic benefits, the Retirement Board allocates the remainder of the employer contribution of 14 percent of covered payroll to the Health Care Fund. For fiscal year 2016, no allocation of covered payroll was allocated to health care. In addition, employers pay a surcharge for employees earning less than an actuarially determined minimum compensation amount, prorated according to service credit earned. For fiscal year 2016, this amount was \$23,000. Statutes provide that

East Cleveland City School District

*Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2016*

no employer shall pay a health care surcharge greater than 2 percent of that employer's SERS-covered payroll; nor may SERS collect in aggregate more than 1.5 percent of the total statewide SERS-covered payroll for the health care surcharge. For fiscal year 2016, the School District's surcharge obligation was \$76,042.

The School District's contributions for health care for the fiscal years ended June 30, 2016, 2015, and 2014 were \$0, \$111,667, and \$78,311, respectively. The full amount has been contributed for fiscal years 2016, 2015 and 2014.

State Teachers Retirement System (STRS)

Plan Description – The State Teachers Retirement System of Ohio (STRS Ohio) administers a cost-sharing multiple-employer defined benefit Health Plan administered for eligible retirees who participated in the defined benefit or combined pension plans offered by STRS Ohio. Ohio law authorizes STRS to offer this plan. Benefits include hospitalization, physicians' fees, prescription drugs and reimbursement of monthly Medicare Part B premiums. The Plan is included in the report of STRS Ohio which can be obtained by visiting www.strsoh.org or by calling (888) 227-7877.

Funding Policy – Ohio Revised Code Chapter 3307 authorizes STRS Ohio to offer the Plan and gives the Retirement Board discretionary authority over how much, if any, of the health care costs will be absorbed by STRS Ohio. Active employee members do not contribute to the Health Care Plan. Nearly all health care plan enrollees, for the most recent year, pay a portion of the health care costs in the form of a monthly premium. Under Ohio law, funding for post-employment health care may be deducted from employer contributions. For the fiscal years ended June 30, 2016 and June 30, 2015, STRS Ohio did not allocate any employer contributions to post-employment health care. For the fiscal year ended June 30, 2014, one percent of covered payroll was allocated to post-employment health care. The School District's contributions for health care for the fiscal years ended June 30, 2016, 2015 and 2014 were \$0, \$0 and \$194,695, respectively. The full amount has been contributed for 2016, 2015 and 2014.

Required Supplementary Information

East Cleveland City School District
Required Supplementary Information
Schedule of the School District's Proportionate Share of the Net Pension Liability
State Teachers Retirement System of Ohio
*Last Three Fiscal Years (1) **

	2016	2015	2014
School District's Proportion of the Net Pension Liability	0.17535119%	0.19417047%	0.19417047%
School District's Proportionate Share of the Net Pension Liability	\$48,461,939	\$47,228,977	\$56,258,850
School District's Covered Payroll	\$18,037,057	\$19,650,654	\$22,242,054
School District's Proportionate Share of the Net Pension Liability as a Percentage of its Covered Payroll	268.68%	240.34%	252.94%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	72.10%	74.70%	69.30%

(1) Although this schedule is intended to show information for ten years, information prior to 2014 is not available. An additional column will be added each year.

* Amounts presented for each fiscal year were determined as of the School District's measurement date which is the prior fiscal year end.

East Cleveland City School District
Required Supplementary Information
Schedule of the School District's Proportionate Share of the Net Pension Liability
School Employees Retirement System of Ohio
*Last Three Fiscal Years (1) **

	2016	2015	2014
School District's Proportion of the Net Pension Liability	0.25051680%	0.22052900%	0.22052900%
School District's Proportionate Share of the Net Pension Liability	\$14,294,732	\$11,160,847	\$13,114,152
School District's Covered Payroll	\$6,134,211	\$6,318,824	\$6,076,649
School District's Proportionate Share of the Net Pension Liability as a Percentage of its Covered Payroll	233.03%	176.63%	215.81%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	69.16%	71.70%	65.52%

(1) Although this schedule is intended to show information for ten years, information prior to 2014 is not available. An additional column will be added each year.

* Amounts presented for each fiscal year were determined as of the School District's measurement date which is the prior fiscal year end.

East Cleveland City School District
Required Supplementary Information
Schedule of School District Contributions
State Teachers Retirement System of Ohio
Last Ten Fiscal Years

	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>
Contractually Required Contribution	\$2,567,886	\$2,525,188	\$2,554,585	\$2,891,467
Contributions in Relation to the Contractually Required Contribution	<u>(2,567,886)</u>	<u>(2,525,188)</u>	<u>(2,554,585)</u>	<u>(2,891,467)</u>
Contribution Deficiency (Excess)	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>
School District Covered Payroll	\$18,342,043	\$18,037,057	\$19,650,654	\$22,242,054
Contributions as a Percentage of Covered Payroll	14.00%	14.00%	13.00%	13.00%

2012	2011	2010	2009	2008	2007
\$2,889,886	\$2,895,701	\$2,849,776	\$2,837,737	\$2,819,733	\$2,863,911
(2,889,886)	(2,895,701)	(2,849,776)	(2,837,737)	(2,819,733)	(2,863,911)
\$0	\$0	\$0	\$0	\$0	\$0
\$22,229,892	\$22,274,623	\$21,921,354	\$21,828,746	\$21,690,254	\$22,030,085
13.00%	13.00%	13.00%	13.00%	13.00%	13.00%

East Cleveland City School District
Required Supplementary Information
Schedule of School District Contributions
School Employees Retirement System of Ohio
Last Ten Fiscal Years

	2016	2015	2014	2013
Contractually Required Contribution	\$871,457	\$808,489	\$926,598	\$888,515
Contributions in Relation to the Contractually Required Contribution	(871,457)	(808,489)	(926,598)	(888,515)
Contribution Deficiency (Excess)	\$0	\$0	\$0	\$0
School District Covered Payroll	\$6,224,693	\$6,134,211	\$6,318,824	\$6,076,649
Contributions as a Percentage of Covered Payroll	14.00%	13.18%	14.66%	14.62%

2012	2011	2010	2009	2008	2007
\$943,131	\$912,145	\$901,620	\$632,186	\$630,410	\$645,785
(943,131)	(912,145)	(901,620)	(632,186)	(630,410)	(645,785)
\$0	\$0	\$0	\$0	\$0	\$0
\$6,621,118	\$6,817,782	\$6,285,172	\$5,934,972	\$5,988,188	\$6,046,676
14.24%	13.38%	14.35%	10.65%	10.53%	10.68%

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**EAST CLEVELAND CITY SCHOOL DISTRICT
CUYAHOGA COUNTY**

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2016**

FEDERAL GRANTOR <i>Pass Through Grantor</i> <i>Program Title</i>	Federal CFDA Number	Expenditures
U. S. DEPARTMENT OF AGRICULTURE		
<i>Passed Through the Ohio Department of Education:</i>		
Child Nutrition Cluster:		
Non-Cash Assistance (Food Distribution):		
National School Lunch Program	10.555	\$ 71,441
Cash Assistance:		
National School Lunch Program	10.555	913,575
School Breakfast Program	10.553	268,647
Summer Food Service Program for Children	10.559	39,237
Cash Assistance Subtotal		<u>1,221,459</u>
Total Child Nutrition Cluster		<u>1,292,900</u>
 Fresh Fruit and Vegetable Program	 10.582	 <u>63,594</u>
Total U.S. Department of Agriculture		<u>1,356,494</u>
 U.S. DEPARTMENT OF DEFENSE		
<i>Direct Program:</i>		
Junior ROTC	12.000	<u>53,837</u>
Total U.S. Department of Defense		<u>53,837</u>
 U.S. DEPARTMENT OF EDUCATION		
<i>Passed Through the Ohio Department of Education:</i>		
Title I Grants to Local Educational Agencies	84.010	2,711,599
Special Education Cluster:		
Special Education Grants to States	84.027	590,588
Special Education Preschool Grants	84.173	31,448
Total Special Education Cluster		<u>622,036</u>
Career and Technical Education - Basic Grants to States	84.048	106,284
Improving Teacher Quality State Grants	84.367	424,199
School Improvement Grants	84.377	271,815
Race-to-the-Top: Mini-Grant Round 4	84.395	428,319
Total U.S. Department of Education		<u>4,564,252</u>
TOTAL FEDERAL FINANCIAL ASSISTANCE		<u>\$ 5,974,583</u>

See the accompanying notes to the Schedule

**EAST CLEVELAND CITY SCHOOL DISTRICT
 CUYAHOGA COUNTY
 NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
 FOR THE FISCAL YEAR ENDED JUNE 30, 2016**

NOTE A – BASIS OF PRESENTATION

The accompanying Schedule of Expenditures of Federal Awards (the Schedule) includes the federal award activity of the East Cleveland City School District (the District's) under programs of the federal government for the year ended June 30, 2016. The information on this Schedule is prepared in accordance with the requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the Schedule presents only a selected portion of the operations of the District, it is not intended to and does not present the financial position or changes in net position of the District

NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Expenditures reported on the Schedule are reported on the cash basis of accounting. Such expenditures are recognized following [as applicable, either the cost principles contained in OMB Circular A-87 *Cost Principles for State, Local, and Indian Tribal Governments* (codified in 2 CFR Part 225), or [2]] the cost principles contained in Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, wherein certain types of expenditures may or may not be allowable or may be limited as to reimbursement. [Negative amounts shown on the Schedule represent adjustments or credits made in the normal course of business to amounts reported as expenditures in prior years.] The District has elected to use the 10-percent de minimis indirect cost rate as allowed under the Uniform Guidance.

NOTE C - 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 D – FOOD DONATION PROGRAM

The District reports commodities consumed on the Schedule at the fair value. The District allocated donated food commodities to the respective program that benefitted from the use of those donated food commodities.

NOTE E – FEDERAL ASSISTANCE TRANSFERS

Federal regulations require schools to obligate certain federal awards by June 30. However, with ODE's consent, schools can transfer unobligated amounts to the subsequent fiscal year's program. The District transferred the following amounts from 2015 to 2016 programs:

CFDA Number	Program Title	Pass-Through Entity Number (or Grant Year)	Transfers Out	Transfers In
84.010	Title I Grants to Local Educational Agencies	ODE FY 15	1,285,722	
84.010	Title I Grants to Local Educational Agencies	ODE FY 16		1,285,722
84.367	Improving Teacher Quality State Grants	ODE FY 15	238,937	
84.367	Improving Teacher Quality State Grants	ODE FY 16		238,937
84.027	Special Education Grants to States	ODE FY 15	148,729	
84.027	Special Education Grants to States	ODE FY 16		148,729
84.377	School Improvement Grants	ODE FY 15	57,836	
84.377	School Improvement Grants	ODE FY 16		57,836
		Total	<u>\$1,731,224</u>	<u>\$1,731,224</u>



Dave Yost • Auditor of State

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

East Cleveland City School District
Cuyahoga County
1843 Stanwood Road
East Cleveland, Ohio 44112-2707

To the Board of Education:

We have audited, in accordance with auditing standards generally accepted in the United States and the Comptroller General of the United States' *Government Auditing Standards*, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the East Cleveland City School District (the School) as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the School's basic financial statements and have issued our report thereon dated April 17, 2018.

Internal Control Over Financial Reporting

As part of our financial statement audit, we considered the School's internal control over financial reporting (internal control) to determine the audit procedures appropriate in the circumstances to the extent necessary to support our opinions on the financial statements, but not to the extent necessary to opine on the effectiveness of the School's internal control. Accordingly, we have not opined on it.

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

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 internal control deficiencies resulting in a reasonable possibility that internal control will not prevent or detect and timely correct a material misstatement of the School's financial statements. We consider finding 2016-001 described in the accompanying schedule of findings and questioned costs to be a material weakness.

A *significant deficiency* is a deficiency, or a combination of internal control deficiencies less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider finding 2016-002 described in the accompanying schedule of findings and questioned costs to be a significant deficiency.

Compliance and Other Matters

As part of reasonably assuring whether the School'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, opining 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 and questioned costs as items 2016-003 and 2016-004.

School's Response to Findings

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

Purpose of this Report

This report only describes the scope of our internal control and compliance testing and our testing results, and does not opine on the effectiveness of the School's internal control or on compliance. This report is an integral part of an audit performed under *Government Auditing Standards* in considering the School's internal control and compliance. Accordingly, this report is not suitable for any other purpose.



Dave Yost
Auditor of State
Columbus, Ohio

April 17, 2018



Dave Yost • Auditor of State

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR FEDERAL PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE AND ON THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

East Cleveland City School District
Cuyahoga County
1843 Stanwood Road
East Cleveland, Ohio 44112-2707

To the Board of Education:

Report on Compliance for Each Major Federal Program

We have audited East Cleveland City School District's (the School) compliance with the applicable requirements described in the U.S. Office of Management and Budget (OMB) *Compliance Supplement* that could directly and materially affect each the School's major federal programs for the year ended June 30, 2016. The *Summary of Auditor's Results* in the accompanying schedule of findings and questioned costs identifies the School's major federal programs.

Management's Responsibility

The School's Management is responsible for complying with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to opine on the School's compliance for each of the School's major federal programs based on our audit of the applicable compliance requirements referred to above. Our compliance audit followed auditing standards generally accepted in the United States of America; the standards for financial audits included in the Comptroller General of the United States' *Government Auditing Standards*; and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). These standards and the Uniform Guidance require us to plan and perform the audit to reasonably assure whether noncompliance with the applicable compliance requirements referred to above that could directly and materially affect a major federal program occurred. An audit includes examining, on a test basis, evidence about the School's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe our audit provides a reasonable basis for our compliance opinion on each of the School's major program. However, our audit does not provide a legal determination of the School's compliance.

Basis for Qualified Opinion on the Title I Grants to Local Educational Agencies and Child Nutrition Cluster

As described in Findings 2016-005 and 2016-006 in the accompanying schedule of findings and questioned costs, the School did not comply with requirements regarding the following:

Finding #	CFDA #	Program (or Cluster) Name	Compliance Requirement
2016-005	10.555 10.553 10.559	Child Nutrition Cluster	Procurement, Suspension and Debarment
2016-006	84.010	Title I Grants to Local Educational Agencies	Matching, Level of Effort, Earmarking

Qualified Opinion on the Title I Grants to Local Educational Agencies and Child Nutrition Cluster

In our opinion, except for the noncompliance described in the Basis for Qualified Opinion on the Title I Grants to Local Educational Agencies and Child Nutrition Cluster paragraph, the East Cleveland City School District, Cuyahoga County, Ohio complied, in all material respects, with the requirements referred to above that could directly and materially affect its Title I Grants to Local Educational Agencies and Child Nutrition Cluster for the year ended June 30, 2016.

Other Matters

The results of our auditing procedures disclosed instances of noncompliance which the Uniform Guidance requires us to report, described in the accompanying schedule of findings and questioned costs as items 2016-007 and 2016-008. Our opinion on *each* major federal program is not modified with respect to these matters.

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

Report on Internal Control over Compliance

The School's management is responsible for establishing and maintaining effective internal control over compliance with the applicable compliance requirements referred to above. In planning and performing our compliance audit, we considered the School's internal control over compliance with the applicable requirements that could directly and materially affect a major federal program, to determine our auditing procedures appropriate for opining on each major federal program's compliance and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not to the extent needed to opine on the effectiveness of internal control over compliance. Accordingly, we have not opined on the effectiveness of the School's internal control over compliance.

The School's management is responsible for establishing and maintaining effective internal control over compliance with the applicable compliance requirements referred to above. In planning and performing our compliance audit, we considered the School's internal control over compliance with the applicable requirements that could directly and materially affect a major federal program, to determine our auditing procedures appropriate for opining on each major federal program's compliance and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not to the extent needed to opine on the effectiveness of internal control over compliance. Accordingly, we have not opined on the effectiveness of the School's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, when performing their assigned functions, to prevent, or to timely detect and correct, noncompliance with a federal program's applicable 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's compliance requirement will not be prevented, or timely detected or corrected. A *significant deficiency in internal over compliance* is a deficiency or a combination of deficiencies in internal control over compliance with a federal program's applicable compliance requirement that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. Therefore, we cannot assure we have identified all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. However, we identified certain deficiencies in internal control over compliance that we consider to be material weaknesses, described in the accompanying schedule of findings and questioned costs as items 2016-005 and 2016-006,

The School's responses to our internal control over compliance findings are described in the accompanying schedule of findings and questioned costs and corrective action plan. We did not audit the School's responses and, accordingly, we express no opinion on them.

This report only describes the scope of our tests of internal control over compliance and the results of this testing based on the Uniform Guidance requirements. Accordingly, this report is not suitable for any other purpose.



Dave Yost
Auditor of State
Columbus, Ohio

April 17, 2018

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**EAST CLEVELAND CITY SCHOOL DISTRICT
CUYAHOGA COUNTY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
2 CFR § 200.515
JUNE 30, 2016**

1. SUMMARY OF AUDITOR'S RESULTS

(d)(1)(i)	Type of Financial Statement Opinion	Unmodified
(d)(1)(ii)	Were there any material weaknesses in internal control reported at the financial statement level (GAGAS)?	Yes
(d)(1)(ii)	Were there any significant deficiencies in internal control reported at the financial statement level (GAGAS)?	Yes
(d)(1)(iii)	Was there any reported material noncompliance at the financial statement level (GAGAS)?	Yes
(d)(1)(iv)	Were there any material weaknesses in internal control reported for major federal programs?	Yes
(d)(1)(iv)	Were there any significant deficiencies in internal control reported for major federal programs?	No
(d)(1)(v)	Type of Major Programs' Compliance Opinion	Qualified for the Title I Grants to Local Educational Agencies and Child Nutrition Cluster
(d)(1)(vi)	Are there any reportable findings under 2 CFR § 200.516(a)?	Yes
(d)(1)(vii)	Major Programs (list):	Child Nutrition Cluster: CFDA# 10.555 – National School Lunch Program CFDA# 10.553 – School Breakfast Program CFDA# 10.559 – Summer Food Service Program for Children CFDA# 84.027 - Title I Grants to Local Educational Agencies
(d)(1)(viii)	Dollar Threshold: Type A/B Programs	Type A: > \$ 750,000 Type B: all others
(d)(1)(ix)	Low Risk Auditee under 2 CFR §200.520?	No

**EAST CLEVELAND CITY SCHOOL DISTRICT
 CUYAHOGA COUNTY
 SCHEDULE OF FINDINGS AND QUESTIONED COSTS
 2 CFR § 200.515
 JUNE 30, 2016
 (CONTINUED)**

2. FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS
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Finding Number	2016-001
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Material Weakness – Financial Reporting

In our audit engagement letter, as required by AU-C Section 210, *Terms of Engagement*, paragraph .06, management acknowledged its responsibility for the preparation and fair presentation of their financial statements; this responsibility includes designing, implementing and maintaining internal control relevant to preparing and fairly presenting financial statements free from material misstatement, whether due to fraud or error as discussed in AU-C Section 210 paragraphs .A14 & .A16. Governmental Accounting Standards Board (GASB) Cod. 1100 paragraph .101 states a governmental accounting system must make it possible both: (a) to present fairly and with full disclosure the funds and activities of the governmental unit in conformity with generally accepted accounting principles, and (b) to determine and demonstrate compliance with finance-related legal and contractual provisions.

When the Board authorizes transfers and advances, the amounts posted to the accounting system should be reviewed to ensure they agree with the Board's authorization.

- Cash advances approved by the Board to repay the outstanding amounts owed did not agree to the amounts posted in the accounting system. This resulted in the following effect on advances-in and advances-out:

Fund	Advance-In Adjustment Amount	Effect	Advance-Out Adjustment Amount	Effect
General	\$0		\$950,681	Understated
Other Grants	40,000	Understated	0	
Classroom Facilities Maintenance	27,914	Understated	0	
District Managed Activities	0		15,000	Understated
Public School Support	25,743	Overstated	0	
Alternative Schools Grant	66,347	Understated	0	
Race to the Top Incentive Grant	210,000	Understated	0	
Special Education Grants to States	302,163	Understated	0	
Career Technical and Adult Education	65,000	Understated	0	
Special Education Preschool Grants	10,000	Understated	0	
Improving Teacher Quality	220,000	Understated	0	
Classroom Facilities	35,000	Understated	0	
Student Managed Activities	0		15,000	Overstated

**EAST CLEVELAND CITY SCHOOL DISTRICT
 CUYAHOGA COUNTY
 SCHEDULE OF FINDINGS AND QUESTIONED COSTS
 2 CFR § 200.515
 JUNE 30, 2016
 (CONTINUED)**

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

Finding Number	2016-001
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(Continued)

- Cash transfers approved by the Board did not agree to the amounts posted in the accounting system. This resulted in General Fund transfers-in being overstated by \$2,160 and transfers-out being understated by \$43,193. It also had an effect on transfers-in for the following funds:

Fund	Amount	Effect
District Managed Act	\$5,000	Overstated
Title VI-B	1,033	Understated
Classroom Facilities	45,000	Understated

This weakness results in cash transfers which are not authorized by the Board.

- An adjustment for Property Taxes was not properly recorded in the accounting system. The adjustment form did not agree to the support and the amounts were reversed. As a result, the General Fund cash balance and revenues were understated by \$776,498 and the Debt Service Fund and Classroom Facilities Maintenance Fund were overstated by \$710,740 and \$65,756, respectively. This weakness may result in tax levied monies being used for purposes other than what the levy required.
- An adjustment for Intergovernmental Revenues - Homestead & Rollback was not properly recorded in the accounting system. The adjustment form did not agree to the support and the amounts were reversed. As a result, the General Fund cash balance and revenues was overstated by \$154,980 and the Debt Service Fund and Classroom Facilities Maintenance Fund were understated by \$141,432 and \$13,548, respectively. The failure to post the proper adjustment resulted in inaccurate cash fund balances and revenues for the respective funds.

The accompanying financial statements and the School's accounting records reflect adjustments recording these amounts.

We recommend the School develop appropriate monitoring procedures to ensure the Board's actions are properly reflected in the accounting system and financial statements. The procedures should also include ensuring property tax and homestead and rollback monies are properly allocated to the respective tax levied funds.

School's Response

We will review this document with the appropriate staff to ensure they have a thorough understanding of the process. The Treasurer will sign off on all Transfers and Advances to ensure information has been posted correctly.

**EAST CLEVELAND CITY SCHOOL DISTRICT
 CUYAHOGA COUNTY
 SCHEDULE OF FINDINGS AND QUESTIONED COSTS
 2 CFR § 200.515
 JUNE 30, 2016
 (CONTINUED)**

2. FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS
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Finding Number	2016-002
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Significant Deficiency - Reconciling the Bank and Investment Accounts to the Book Balances

Reconciliation of the School's bank accounts with its cash ledgers is a necessary control procedure to adequately safeguard cash and to provide an accurate financial picture of the School. A necessary step in internal control over financial reporting is to determine the accuracy of both the balance of the bank and the balance of "cash" in the accounting records. As part of the bank reconciliation, all differences between the balance appearing on the bank statements and the balance of cash according to the School's records should be accounted for.

The School hired an independent accounting firm to perform their bank reconciliations for fiscal year 2016. The firm identified \$8,283 in revenue adjustments and \$153,949 in expenditure adjustments. The errors were the result of the following adjustments:

- Receipts posted to the accounting system without a corresponding bank deposits,
- Bank deposits not posted,
- Expenditures on the bank statements that were not posted,
- Payroll check corrections not being updated in the accounting system,
- Bank fees and interest not recorded in the accounting system,
- Check amounts on the bank statement not agreeing to the check amount recorded in the accounting system.
- The June 30, 2016 bank reconciliation included \$4,121 in unreconciled adjustments that were identified in the prior year, but were not investigated and adjusted for in the current year.

The failure to resolve discrepancies in a timely manner may result in errors in the cash fund balances, budgeting and financial reporting.

We recommend the bank reconciliations be performed in a timely manner and that discrepancies be investigated and corrected promptly.

School's Response

The bank accounts will be reconciled to USAS on a monthly basis. Staff training will also be provided.

**EAST CLEVELAND CITY SCHOOL DISTRICT
 CUYAHOGA COUNTY
 SCHEDULE OF FINDINGS AND QUESTIONED COSTS
 2 CFR § 200.515
 JUNE 30, 2016
 (CONTINUED)**

2. FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS
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Finding Number	2016-003
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Material Noncompliance Finding – Appropriations Exceeded Total Estimated Resources

Ohio Rev. Code § 5705.39 states that the total appropriations from each fund shall not exceed the total of the estimated revenue available for expenditure therefrom, as certified by the budget commission, or in case of appeal, by the board of tax appeals. No appropriation measure shall become effective until the county auditor files with the appropriating authority a certificate that the total appropriations from each fund, taken together with all other outstanding appropriations, do not exceed such official estimate or amended official estimate. When the appropriation does not exceed such official estimate, the county auditor shall give such certificate forthwith upon receiving from the appropriating authority a certified copy of the appropriation measure. Appropriations shall be made from each fund only for the purposes for which such fund is established.

The Title I Fund had original appropriations of \$5,759,076 and estimated resources plus carryover balances of \$3,903,663, a difference of \$1,855,413. The Title I Fund also had final appropriations of \$4,220,299 and estimated resources plus carryover balances of \$3,169,453, a difference of \$1,050,846.

These weaknesses may result in the School spending more than its total available resources.

We recommend the School establish procedures to ensure total appropriations do not exceed total estimated resources.

School’s Response

We will compare the total estimated resources with appropriations on a regular basis to ensure appropriations do not exceed total estimated resources.

Finding Number	2016-004
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Material Noncompliance – Negative Cash Fund Balances

Ohio Rev. Code § 5705.10(l) provides that money paid into a fund must be used only for the purposes for which such fund has been established. A fund with a negative fund balance signifies that monies from other funds were used to meet their obligations.

As of June 30, 2016, the following funds had negative cash fund balances:

Fund	Amount
Alternative Schools	\$35,131
Title VI-B	202,491
Vocational Education	23,093
Title 1	1,690,517
Preschool Handicapped	7,210
Improving Teacher Quality State Grants	157,148

A fund with a negative cash fund balance indicates that money from another fund was used to pay the expenditures of that fund.

**EAST CLEVELAND CITY SCHOOL DISTRICT
CUYAHOGA COUNTY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
2 CFR § 200.515
JUNE 30, 2016
(CONTINUED)**

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

Finding Number	2016-004
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(Continued)

We recommend the School monitor fund balances to ensure that expenditures are made within appropriated levels of available funds and if negative fund balances are anticipated, the School should make an approved transfer or advance of funds to cover the necessary expenditure.

School's Response

These were all grant funds that are allowed to go negative from month to month. We will monitor closely so that if cash advances are required that we receive the necessary approvals from the Board.

3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS
--

1. Child Nutrition Cluster – Procurement Weakness

Finding Number	2016-005		
CFDA Title and Number	Child Nutrition Cluster: National School Lunch Program, CFDA# 10.555 School Breakfast Program, CFDA# 10.553 Summer Food Service Program for Children, CFDA#10.559		
Federal Award Identification Number / Year	162OH62N1099 - 2016 172OH62N1099 – 2017		
Federal Agency	U.S. Department of Education		
Pass-Through Entity	Ohio Department of Education		
Repeat Finding from Prior Audit?	Yes	Finding Number (if repeat)	2015-005

Material Weakness and Material Noncompliance - Procurement and Suspension and Debarment

2 CFR § 180.305 states that Non-Federal entities are generally prohibited from contracting with or making subawards under covered transactions to parties that are suspended or debarred or whose principals are suspended or debarred. "Covered transactions" include those procurement contracts for goods and services awarded under a nonprocurement transaction (e.g., grant or cooperative agreement) that are expected to equal or exceed \$25,000 or meet certain other specified criteria. 2 CFR § 180.220 of the government-wide nonprocurement debarment and suspension guidance contains those additional limited circumstances. All nonprocurement transactions (i.e., subawards to subrecipients), irrespective of award amount, are considered covered transactions.

2 CFR § 180.300 provides that when a non-Federal entity enters into a covered transaction with an entity at a lower tier, the non-Federal entity must verify that the entity is not suspended or debarred or otherwise excluded. This verification may be accomplished by checking the System for Award Management (SAM) Exclusions maintained by the General Services Administration (GSA), collecting a certification from the entity, or adding a clause or condition to the covered transactions with that entity.

**EAST CLEVELAND CITY SCHOOL DISTRICT
CUYAHOGA COUNTY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
2 CFR § 200.515
JUNE 30, 2016
(CONTINUED)**

3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS
--

Finding Number	2016-005
(Continued)	

Six instances comprising two vendors in the Child Nutrition Cluster federal program had payments to a vendor of more than \$25,000 and there was no evidence the School checked the SAM Exclusions, collected a certification from the entity, or added a clause or condition to the covered transaction with the vendor. These weaknesses indicate controls were not in place, at the time the contract was awarded and expenditures were made, to ensure that contractors suspended or debarred did not receive federal program monies.

We recommend the School develop procedures for the above federal programs to ensure that, prior to contracting with a vendor that will be paid with federal funds, it is verified that the vendor is not suspended or debarred. Such can be done by checking the SAM Exclusions, collecting a certification from the vendor, or adding a clause or condition to the covered transaction with the vendor.

School's Response

We will develop procedures for all vendors to ensure we are using SAM Exclusions, and collecting required certification from the vendor.

2. Title I – Supporting Student Absences

Finding Number	2016-006		
CFDA Title and Number	Title I Grants to Local Educational Agencies, CFDA# 84.010		
Federal Award Identification Number / Year	S010A160035 - 2016		
Federal Agency	U.S. Department of Education		
Pass-Through Entity	Ohio Department of Education		
Repeat Finding from Prior Audit?	No	Finding Number (if repeat)	NA

Material Weakness and Material Noncompliance - Matching, Level of Effort, Earmarking

34 CFR §300.203(b)(1) states that except as provided in 34 CFR §300.204 and 34 CFR §300.205, funds provided to a Local Educational Agency (LEA) under Part B of the Disabilities Education Act must not be used to reduce the level of expenditures for the education of children with disabilities made by the LEA from local funds below the level of those expenditures for the preceding fiscal year.

34 CFR 300.203(b)(2) states an LEA meets this standard if it does not reduce the level of expenditures for the education of children with disabilities made by the LEA from at least one of the following sources below the level of those expenditures from the same source for the preceding fiscal year, except as provided in §§ 300.204 and 300.205:

- (i) Local funds only;
- (ii) The combination of State and local funds;
- (iii) Local funds only on a per capita basis; or
- (iv) The combination of State and local funds on a per capita basis.

**EAST CLEVELAND CITY SCHOOL DISTRICT
 CUYAHOGA COUNTY
 SCHEDULE OF FINDINGS AND QUESTIONED COSTS
 2 CFR § 200.515
 JUNE 30, 2016
 (CONTINUED)**

3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS
--

Finding Number	2016-006
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(Continued)

34 CFR 300.203(b)(3) states expenditures made from funds provided by the Federal government for which the State Educational Agency (SEA) is required to account to the Federal government or for which the LEA is required to account to the Federal government directly or through the SEA may not be considered in determining whether an LEA meets the standard in paragraphs (b)(1) and (2) of this section.

The Ohio Department of Education (ODE) determines compliance based on information LEA's submit through the Education Management Information System (EMIS). One of the School reports used in this calculation is the Statewide Student Identifier System (SSID) Level Count report located in the Student Data Center (SDC).

The School utilizes ProgressBook computer software to input and track all student attendance information. The information from ProgressBook is used to report attendance to the EMIS system. In order to support the information in ProgressBook detailed support is required to be maintained documenting any student absences.

Two of 61 students tested were reported in ProgressBook as absent but there was no documentation supporting the absence. The failure to accurately support student absences within the ProgressBook system diminishes the reliability of the information reported to ODE. This may result in inaccuracies in ODE's calculation of the School's future funding.

We recommend that all student absences be documented in ProgressBook.

School's Response

We will review all documentation to ensure compliance.

Finding Number	2016-007
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Other Federal Noncompliance Finding - Activities Allowed or Unallowed and Questioned Cost

2 C.F.R. § 200.403 provides that to be allowable under Federal awards, costs must meet the general criteria listed in the statute. One of the general criteria under 2 CFR § 200.403 states the following:

- (g) Costs must be adequately documented.

As reported in finding 2016-001, adjustments were made to the advance amounts reported in the accounting system in order to agree them to the amounts authorized by the Board. The adjustments resulted in a \$1,549,999 inter-fund receivables on the financial statements reporting for the Title I program federal program that was payable from the General Fund. This amount represented the repayment of prior year General Fund advances that were returned in excess of the original amount of the advances. This was due to the failure to maintain a schedule that tracks advances and comparing the amount of the repayments with the original advances or outstanding amount due. This results in questioned costs of \$1,549,999.

**EAST CLEVELAND CITY SCHOOL DISTRICT
 CUYAHOGA COUNTY
 SCHEDULE OF FINDINGS AND QUESTIONED COSTS
 2 CFR § 200.515
 JUNE 30, 2016
 (CONTINUED)**

3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS
--

Finding Number	2016-007
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(Continued)

We recommend the Board take action to correct the overpayments of the outstanding advances. A schedule of all advances should also be maintained in order to ensure the repayments are made timely and are correct. The schedule should include the dates of the advance and repayment and should be monitored on a regular basis to ensure all advances are repaid within one year.

School's Response

We will review all documentation to ensure compliance.

Finding Number	2016-008
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Other Federal Noncompliance Finding – Activities Allowed or Unallowed and Questioned Cost

2 C.F.R. § 200.403 provides that to be allowable under Federal awards, costs must meet the general criteria listed in the statute. One of the general criteria under 2 C.F.R. § 200.403 states the following:

- (g) Costs must be adequately documented.

As reported in finding 2016-001, adjustments were made to the advance amounts reported in the accounting system in order to agree them to the amounts authorized by the Board. These adjustments resulted in several inter-fund receivables for federal programs being reported on the financial statements that were payable from the General Fund. These receivables are due to the repayment of prior year General Fund advances that were returned in excess of the original amount of the advances. The following nonmajor federal programs are reporting an inter-fund receivable as of yearend that is payable to the General Fund as of June 30, 2016:

Federal Program Fund	Amount
Special Education Grants to States	\$445,102
Career and Technical Education – Basics Grants to States	65,100
Improving Teacher Quality State Grants	91,685
School Improvement Grants	242,492
Total	\$844,379

This weakness was due to the failure to maintain a schedule of advances that tracks the advances and compares the amount of the repayments with the original advances or outstanding amount due. This results in questioned costs of \$844,379.

We recommend the Board take action to correct the overpayments of the outstanding advances. A schedule of all advances should also be maintained in order to ensure the repayments are made timely and are correct. The schedule should include the dates of the advance and repayment and should be monitored on a regular basis to ensure all advances are repaid within one year.

School's Response

We will review all documentation to ensure compliance.

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**EAST CLEVELAND CITY SCHOOL DISTRICT
CUYAHOGA COUNTY**

**SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS AND QUESTIONED COSTS
2 CFR 200.511(b)
FOR THE FISCAL YEAR ENDED JUNE 30, 2016**

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; <i>Explain</i>
2015-001	Errors in financial reporting.	No	Not corrected, see finding 2016-001
2015-002	Bank reconciliations were not complete and an IPA firm was retained to review the reconciliations which resulted in additional adjustments being necessary.	No	Not corrected, see finding 2016-002
2015-003	Expenditures plus encumbrances were in excess of appropriations for several funds contrary to the law.	No	Partially corrected, immaterial violations reported in 2016 management letter
2015-004	Negative cash fund balances contrary to the law.	No	Not corrected, see finding 2016-003
2015-005	Child Nutrition Cluster federal program paid vendors more than \$25,000 and there was no evidence the District checked for compliance with the procurement and suspension and debarment requirement.	No	Not corrected, see finding 2016-004
2015-006	Advance repayments to the General Fund from the major fund exceeded the amount advance outstanding.	No	Not corrected, see finding 2016-006
2015-007	Advance repayments to the General Fund from the nonmajor funds exceeded the amount advance outstanding.	No	Not corrected, see finding 2016-007

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**EAST CLEVELAND CITY SCHOOL DISTRICT
CUYAHOGA COUNTY**

**CORRECTIVE ACTION PLAN1
2 CFR § 200.511(c)
JUNE 30, 2016**

FINDING NUMBER	PLANNED CORRECTIVE ACTION	Anticipated Completion Date	Responsible Contact Person
2016-001	We will review this document with the appropriate staff to ensure they have a thorough understanding of the process. The Treasurer will sign off on all Transfers and Advances to ensure information has been posted correctly.	6/30/2018	Diana Whitt
2016-002	The bank accounts will be reconciled to USAS on a monthly basis. Staff training will also be provided.	6/30/2018	Diana Whitt
2016-003	We will compare the total estimated resources with appropriations on a regular basis to ensure appropriations do not exceed total estimated resources.	6/30/2018	Diana Whitt
2016-004	These were all grant funds that are allowed to go negative from month to month. We will monitor closely so that if cash advances are required that we receive the necessary approvals from the Board.	6/30/2018	Diana Whitt
2016-005	We will develop procedures for all vendors to ensure we are using SAM Exclusions, and collecting required certification from the vendor.	6/30/2018	Diana Whitt Alan Wolf Administrative Staff
2016-006	We will review all documentation to ensure compliance.	6/30/2018	Dr. Myrna Corley Dennis Bunkley Andratesha Fritzgerald Joe Kay
2016-007	We will review all documentation to ensure compliance.	6/30/2018	Diana Whitt
2016-008	We will review all documentation to ensure compliance.	6/30/2018	Diana Whitt

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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 15, 2018**