



**Mary Taylor, CPA**  
Auditor of State

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

**Financial Forecast  
For the Fiscal Year Ending June 30, 2010**

**Local Government Services Section**

**East Cleveland City School District  
Cuyahoga County**

**Financial Forecast**

**Table of Contents**

	<u>Page</u>
Table of Contents .....	1
Certification .....	2
Independent Accountant's Report .....	3
Statement of Revenues, Expenditures and Changes in Fund Balance For the Fiscal Years Ended June 30, 2007 through 2009 Actual; Fiscal Year Ending June 30, 2010 Forecasted.....	4
Summary of Significant Forecast Assumptions and Accounting Policies .....	5



Mary Taylor, CPA  
Auditor of State

East Cleveland City School District  
Financial Planning and Supervision Commission  
Ohio Department of Education  
25 Front Street  
Columbus, Ohio 43215

and

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

**CERTIFICATION**

Certification is hereby made that, based upon the requirement set forth in Section 3316.08, Revised Code, the Local Government Services Section of the Auditor of State's Office has examined the financial forecast of the general fund of the East Cleveland City School District, Cuyahoga County, Ohio, and issued a report dated April 19, 2010. The forecast is based on the assumption that the School District will continue to operate its instructional program in accordance with its adopted school calendar and pay all obligations. Additional significant assumptions are set forth in the forecast. Some assumptions inevitably will not materialize, and unanticipated events and circumstances may occur; therefore, the actual results of operations during the forecast period will vary from the forecast, and the variations may be material.

The forecast reflects an operating surplus for the fiscal year ending June 30, 2010 of \$33,321,000.

The forecasted revenues include all property taxes scheduled for settlement during the forecast period. The forecast excludes the receipt of any advances against fiscal year 2011 scheduled property tax settlements. The potential advances have been excluded due to the School District's inability to appropriate this revenue until received and the uncertainty of the timing of any advances. Currently, it is the Board's intent not to appropriate any such advances for fiscal year 2010.

MARY TAYLOR, CPA  
Auditor of State

*Unice S. Smith*

Unice S. Smith  
Chief of Local Government Services

May 27, 2010

88 E. Broad St. / Fifth Floor / Columbus, OH 43215-3506  
Telephone: (614) 466-4514 (800) 282-0370 Fax: (614) 466-4490  
[www.auditor.state.oh.us](http://www.auditor.state.oh.us)



# Mary Taylor, CPA

Auditor of State

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

## Independent Accountant's Report

We have examined the accompanying forecasted statement of revenues, expenditures and changes in fund balance of the general fund of the East Cleveland City School District for the fiscal year ending June 30, 2010. The East Cleveland City School District's management is responsible for the forecast. Our responsibility is to express an opinion on the forecast based on our examination.

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

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

The accompanying statement of revenues, expenditures and changes in fund balance of the general fund of East Cleveland City School District for the fiscal years ended June 30, 2007, 2008 and 2009 were compiled by us in accordance with the Statements on Standards for Accounting and Review Services issued by the American Institute of Certified Public Accountants. A compilation is limited to presenting in the form of financial statements information that is the representation of management. We have not audited or reviewed this financial information, and, accordingly, do not express an opinion or any other form of assurance on them. Management has elected to omit substantially all of the disclosures associated with the historical financial statements; these disclosures might influence a user's conclusions regarding the School District's results of operations. Accordingly, these financial statements are not designed for those who are not informed about such matters.

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

Mary Taylor, CPA  
Auditor of State

April 19, 2010

**East Cleveland City School District**  
Cuyahoga County

Statement of Revenues, Expenditures and Changes in Fund Balance  
For the Fiscal Years Ended June 30, 2007 Through 2009 Actual;  
For the Fiscal Year Ending June 30, 2010 Forecasted  
General Fund

	Fiscal Year 2007 Actual	Fiscal Year 2008 Actual	Fiscal Year 2009 Actual	Fiscal Year 2010 Forecasted
<b>Revenues</b>				
General Property Tax	\$9,010,000	\$8,228,000	\$7,849,000	\$7,488,000
Tangible Personal Property Tax	1,528,000	1,180,000	985,000	131,000
Unrestricted Grants-in-Aid	30,484,000	32,188,000	31,464,000	33,147,000
Restricted Grants-in-Aid	6,159,000	4,404,000	4,480,000	781,000
Restricted Federal Grants-in-Aid SFSF	0	0	0	2,102,000
Property Tax Allocation	2,094,000	2,178,000	2,115,000	2,439,000
All Other Revenues	4,159,000	4,765,000	5,190,000	4,640,000
<i>Total Revenues</i>	<u>53,434,000</u>	<u>52,943,000</u>	<u>52,083,000</u>	<u>50,728,000</u>
<b>Other Financing Sources</b>				
Advances In	3,432,000	2,983,000	7,231,000	6,000,000
Operating Transfers In	10,000	0	0	0
<i>Total Other Financing Sources</i>	<u>3,442,000</u>	<u>2,983,000</u>	<u>7,231,000</u>	<u>6,000,000</u>
<i>Total Revenues and Other Financing Sources</i>	<u>56,876,000</u>	<u>55,926,000</u>	<u>59,314,000</u>	<u>56,728,000</u>
<b>Expenditures</b>				
Personal Services	22,738,000	23,063,000	23,487,000	23,184,000
Employees' Retirement/Insurance Benefits	8,010,000	8,619,000	8,602,000	9,516,000
Purchased Services	11,940,000	12,055,000	12,683,000	11,924,000
Supplies and Materials	1,161,000	1,509,000	2,068,000	1,786,000
Capital Outlay	92,000	726,000	405,000	215,000
Other Objects	412,000	227,000	384,000	212,000
<i>Total Expenditures</i>	<u>44,353,000</u>	<u>46,199,000</u>	<u>47,629,000</u>	<u>46,837,000</u>
<b>Other Financing Uses</b>				
Operating Transfers Out	208,000	235,000	384,000	250,000
Advances Out	2,211,000	6,132,000	5,071,000	6,000,000
All Other Financing Uses	0	0	12,000	0
<i>Total Other Financing Uses</i>	<u>2,419,000</u>	<u>6,367,000</u>	<u>5,467,000</u>	<u>6,250,000</u>
<i>Total Expenditures and Other Financing Uses</i>	<u>46,772,000</u>	<u>52,566,000</u>	<u>53,096,000</u>	<u>53,087,000</u>
<i>Excess of Revenues and Other Financing Sources Over Expenditures and Other Financing Uses</i>	10,104,000	3,360,000	6,218,000	3,641,000
Cash Balance July 1	11,720,000	21,824,000	25,184,000	31,402,000
Cash Balance June 30	<u>21,824,000</u>	<u>25,184,000</u>	<u>31,402,000</u>	<u>35,043,000</u>
<b>Encumbrances and Reserves:</b>				
Actual/Estimated Encumbrances June 30	2,167,000	1,681,000	2,617,000	1,681,000
Reservations of Fund Balance for:				
Bus Purchase	0	21,000	41,000	41,000
DPIA/Poverty Based Assistance	306,000	0	0	0
Total Encumbrances and Reserves of Fund Balance	<u>2,473,000</u>	<u>1,702,000</u>	<u>2,658,000</u>	<u>1,722,000</u>
Unencumbered/Unreserved Fund Balance June 30	<u>\$19,351,000</u>	<u>\$23,482,000</u>	<u>\$28,744,000</u>	<u>\$33,321,000</u>

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

**East Cleveland City School District**  
Cuyahoga County  
Summary of Significant Assumptions and Accounting Policies  
For the Fiscal Year Ending June 30, 2010

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**Note 1 – The School District**

The East Cleveland City School District (the School District) is located in Cuyahoga County and encompasses all of the City of East Cleveland. The School District is organized under Article VI, Sections 2 and 3, of the Constitution of the State of Ohio. The legislative power of the School District is vested in the Board of Education, consisting of five members elected at large for staggered four year terms. The School District currently operates sixteen instructional buildings. The School District is staffed by 134 non-certified, 272 certificated personnel who provide services to 3,490 students and other community members.

**Note 2 - Nature of the Forecast**

This financial forecast presents, to the best of the East Cleveland City School District Board of Education's knowledge and belief, the expected revenues, expenditures and operating balance of the general fund. Accordingly, the forecast reflects the Board of Education's judgment of the expected conditions and its expected course of action as of April 19, 2010, the date of this forecast. The assumptions disclosed herein are those that management believes are significant to the forecast. Differences between the forecasted and actual results will usually arise because events and circumstances frequently do not occur as expected, and those differences may be material.

**Note 3 – Nature of the Presentation**

The forecast presents the revenues, expenditures, and changes in fund balance of the general fund. Under State law, certain general fund revenues received from the State must be spent on specific programs. These resources and the related expenditures have been segregated in the accounting records of the School District to demonstrate compliance. For presentation in the forecast, the poverty based assistance fund and the school district fiscal stabilization fund are included in the general fund.

**Note 4 - Summary of Significant Accounting Policies**

**A. - Basis of Accounting**

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

**East Cleveland City School District**  
Cuyahoga County  
Summary of Significant Assumptions and Accounting Policies  
For the Fiscal Year Ending June 30, 2010

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**B. - Fund Accounting**

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

**Governmental Funds**

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

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

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

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

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

**Proprietary Funds**

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

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

**Fiduciary Funds**

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

**C. - Budgetary Process**

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

**East Cleveland City School District**  
Cuyahoga County  
Summary of Significant Assumptions and Accounting Policies  
For the Fiscal Year Ending June 30, 2010

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

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

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

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

**Note 5 - General Operating Assumptions**

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

**Note 6 - Significant Assumptions for Revenues and Other Financing Sources**

**A. - General and Tangible Personal Property Taxes**

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

Property taxes are levied and assessed on a calendar year basis while the School District's fiscal year runs from July through June. Property tax revenue received during calendar year 2010 (the collection year) for real and public utility property taxes represents collections of 2009 taxes (the tax year). Property tax payments received during calendar year 2010 for tangible personal property (other than public utility property) are for calendar year 2010 taxes. First half calendar year tax collections are received by the School District in the second half of the fiscal year. Second half calendar year tax distributions occur in the first half of the following fiscal year.

**East Cleveland City School District**  
 Cuyahoga County  
 Summary of Significant Assumptions and Accounting Policies  
 For the Fiscal Year Ending June 30, 2010

State law allows for certain reductions in the form of rollbacks and homestead exemptions for real estate taxes. The State reimburses the School District for all revenues lost due to these exemptions. The amount of the reimbursement is presented in the account "Property Tax Allocation".

Prior to fiscal year end, a school district may request an advance of real property tax collections that ordinarily would be settled in August and used to finance the upcoming fiscal year. The forecast excludes the receipt of any advances against fiscal year 2011 scheduled property tax settlements. The potential advances have been excluded due to the School District's inability to appropriate this revenue until received and the uncertainty of the timing of any advances. Currently, it is the Board's intent not to appropriate any such advances for fiscal year 2010.

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

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

The School District also has levies for bonded debt and school facilities maintenance totaling \$4.12 per \$1,000 of assessed valuation. The School District's total rate is \$92.50 per \$1,000 of valuation.

Ohio law provides for a reduction in the rates of voted levies to offset increased values resulting from a reappraisal of real property. Reduction factors are applied to voted levies so that each levy yields the same amount of real property tax revenues on carryover property as in the prior year. Reduction factors are also adjusted to generate the same amount of property tax revenue on carryover property when there is a decline in the assessed valuation of property. For all voted levies, except emergency and debt levies, increases in revenues are restricted to amounts generated from new construction. Emergency and debt levies are intended to generate a set revenue amount annually. The revenue generated by emergency and debt levies is not affected by changes in real property valuation. The reduction factors are computed annually and applied separately for residential/agricultural real property and commercial/industrial real property. Reduction factors are not applied to inside millage (an unvoted levy) nor to tangible personal or public utility property levy rates. State law also prohibits the reduction factors from reducing the effective millage of the sum of the general fund current operating levies (excluding emergency levies) plus inside millage used for operating purposes below 20 mills. For the general fund, the effective residential and agricultural real property tax rate is \$34.96 per \$1,000 of assessed valuation for collection year 2010, and the effective commercial and industrial real property tax rate is \$55.29 per \$1,000 of assessed valuation for collection year 2010.

Public utility real and personal property taxes are collected and settled by the county with real estate taxes and are recorded as general property taxes. Beginning in 2001, the Ohio General Assembly reduced the assessment rate for certain tangible personal property of electric and gas utilities from 88 percent to 25

**East Cleveland City School District**  
Cuyahoga County  
Summary of Significant Assumptions and Accounting Policies  
For the Fiscal Year Ending June 30, 2010

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

General Property Tax - General property tax revenue includes real estate taxes, public utility property taxes and manufactured home taxes. The amount shown in the revenue section of the forecast schedule represents gross property tax revenue and is based upon information provided by the Cuyahoga County Auditor. The School District anticipates a decrease of \$361,000 from the prior fiscal year due to an increase in delinquencies.

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

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

For fiscal year 2010, tangible personal property tax revenues include telephone property only. The October 2008 tangible personal property tax settlement received in fiscal year 2009 was the last property tax settlement for general personal property taxes. The decrease in revenue for the forecast period compared to the prior fiscal year is due to the phase out of tangible personal property taxes.

**East Cleveland City School District**  
 Cuyahoga County  
 Summary of Significant Assumptions and Accounting Policies  
 For the Fiscal Year Ending June 30, 2010

**B. - Unrestricted Grants-in-Aid**

Prior to fiscal year 2010, the State’s foundation program was established by Chapter 3317 of the Ohio Revised Code and included formula aid and various categorical aid programs such as special and gifted education, career and technical education and transportation. Other programs such as parity aid, excess cost supplement and transitional aid guarantee were provided to address certain policy issues or correct flaws in formula aid were also included in this revenue. The semi-annual payments were calculated by the State Department of Education, Division of School Finance, on the basis of pupil enrollment (ADM), times a per pupil foundation level, less the equivalent of 23 mills multiplied by the school district’s taxable property valuation. The per pupil foundation level was set by the State Legislature. Beginning in fiscal year 2008, the per pupil amount was increased by four base supplements called “building blocks.” The building blocks were funding for intervention, professional development, data based decision making, and professional development for data based decision making.

The per pupil amount for fiscal years 2007 to 2009 is as follows:

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

Beginning in fiscal year 2010, the State General Assembly adopted a new funding method called the Ohio Evidence-Based Model (OEBM). The Ohio Evidence-based Model was established in Chapter 3306 of the Ohio Revised Code and links educational research on academic achievement and successful outcomes with funding components to achieve results. It incorporates real financial data and socioeconomic factors to fund resources and implement proven school programs according to the student need to achieve educational adequacy. The adequacy amount is the sum of service support components for instruction, administrative, operations and maintenance, gifted and enrichment, professional development and an instructional materials factor. These factors are multiplied against the Ohio education challenge factor (a district’s wealth factor) and the State-wide base salary for given positions and the number of positions funded. Other factors included in the calculation are student/teacher ratios, organizational units, and average daily membership (ADM). The adequacy amount is offset by the school district share of the adequacy amount (the charge off amount), which is equal to 22 mills for fiscal year 2010.

The State Department of Education, Division of School Finance calculates the annual funding, including the adequacy amount, and distributes a prorated share bi-monthly to the School District. In transitioning to the Ohio Evidence-Based Model, the gifted, enrichment, technology service support components and the charge off amount are phased in over a five year period. In addition, school districts are guaranteed 99 percent of prior year’s State Foundation aid for the current fiscal year. For fiscal year 2010, the East Cleveland City School District estimates \$22,905,000 in adequacy funding and \$10,242,000 in guarantee funding.

In fiscal year 2010, approximately six percent of the adequacy funding is provided from a State Fiscal Stabilization grant received by the State of Ohio under the American Recovery and Reinvestment Act (see D - Restricted Federal Grants-in-Aid).

**East Cleveland City School District**  
Cuyahoga County  
Summary of Significant Assumptions and Accounting Policies  
For the Fiscal Year Ending June 30, 2010

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

In past years, restricted grants-in-aid consist of career technologies, bus purchase, parity aid and poverty based aid monies. For fiscal year 2010, the School District anticipates no bus purchase allowance monies, \$281,000 in career tech monies, \$500,000 in catastrophic aid for special education students and no poverty based assistance. A \$3,699,000 decrease is anticipated from the prior year due to changes in the school funding model.

**D. - Restricted Federal Grants-in-Aid**

In 2010, Ohio was allocated \$845 million from the American Recovery and Reinvestment Act in State Fiscal Stabilization Funds (SFSF) to help stabilize state and local budgets in order to minimize and avoid reductions in education and other essential services. SFSF for primary and secondary education is distributed to school districts as part of the foundation settlement payments twice a month. The East Cleveland City School District, based on estimates provided by the Department of Education, anticipates \$2,102,000 for fiscal year 2010. These funds have limited restrictions on their use. The School District has chosen to use these funds for teacher salaries.

**E. - Property Tax Allocation**

State law grants tax relief in the form of a ten percent reduction in real property tax bills. In addition, a two and one-half percent rollback is granted on residential property taxes. Tax relief is also granted to qualified elderly and disabled homeowners based on their income. Beginning in tax collection year 2008, the State expanded the homestead exemption to allow eligible homeowners to shield the first \$25,000 in market value from taxation. This expanded exemption will increase State allocation revenue and decrease property tax revenues by an equal amount. The State reimburses the School District for the loss of real property taxes as a result of the rollback and homestead tax relief programs.

Historically, the State exempted the first \$10,000 in general business personal property from taxation and reimburse the School District for the lost revenue. Beginning with tax year 2004, the State began phasing out the reimbursement by 10 percent each year. Under HB 66, the phase-out period was accelerated. The last reimbursement for this exemption was in October 2008.

Beginning in tax year 2001, there were significant reductions in the valuation of certain types of public utility property. Two bills enacted by the 123<sup>rd</sup> General Assembly reduced the assessment rate for certain tangible personal property of electric utilities and all tangible personal property of gas utilities. To replace this money, new state consumption taxes have been enacted, a kilowatt-hour tax on electricity and a thousand cubic foot tax on natural gas. Money from these new taxes is used to reimburse school districts for the loss of public utility property tax revenue. Reimbursements are made twice a year in February and August and are identified as Utility Deregulation payments. For fiscal year 2010, the School District anticipates no public utility reimbursements based on information provided by the Ohio Department of Taxation.

**East Cleveland City School District**  
 Cuyahoga County  
 Summary of Significant Assumptions and Accounting Policies  
 For the Fiscal Year Ending June 30, 2010

In fiscal year 2006, the State began reimbursing the School District for lost revenue due to the phase out of tangible personal property tax. In the first five years, the School District will be fully reimbursed relative to prior law for revenue lost due to the taxable value of reductions through 2013. Beginning in fiscal year 2013, the reimbursements are gradually phased out. The reimbursement will be for the difference between the assessed values under prior law and the assessed values under House Bill 66. This means the School District is only reimbursed for the difference between the amounts that would have been received under the prior law and the amounts actually received as the phase-outs in House Bill 66 are implemented. For fiscal year 2010, the School District anticipates receiving \$1,413,000 of reimbursement for the tangible personal property tax phase out.

Property tax allocation revenues consist of the following:

<u>Revenue Sources</u>	<u>Actual Fiscal Year 2007</u>	<u>Actual Fiscal Year 2008</u>	<u>Actual Fiscal Year 2009</u>	<u>Forecasted Fiscal Year 2010</u>	<u>Variance</u>
Homestead and Rollback Tangible Personal	\$1,049,000	\$1,163,000	\$1,143,000	\$1,026,000	(\$117,000)
Property Exemption	0	24,000	12,000	0	(12,000)
Utility Deregulation	677,000	338,000	0	0	0
Tangible Personal Property Loss Reimbursement	<u>368,000</u>	<u>653,000</u>	<u>960,000</u>	<u>1,413,000</u>	<u>453,000</u>
Totals	<u><u>\$2,094,000</u></u>	<u><u>\$2,178,000</u></u>	<u><u>\$2,115,000</u></u>	<u><u>\$2,439,000</u></u>	<u><u>\$324,000</u></u>

**F. - All Other Revenues**

All other revenues include tuition and open enrollment, interest on investments, classroom materials and fees, Reserve Officer Training Corps (ROTC), Medicaid School Program (MSP), other receipts, and the refund of prior year expenditures.

The increase in open enrollment tuition revenue is an increase in the number of students from other school districts attending the School District. The School District receives tuition from other school districts for their special education students who receive services from the East Cleveland City School District. The School District also receives open enrollment tuition from the resident school districts for their students that attending East Cleveland City School District.

The School District pools cash from all funds for investment purposes. Investments are restricted by provisions of the Ohio Revised Code and are valued at cost. Following Ohio statutes, the Board of Education has, by resolution, specified the funds to receive an allocation of interest earnings with the greatest allocation being to the general fund. Interest revenue is anticipated to decrease due to low interest rates.

The CAFS program ended June 30, 2005 with the final distribution in fiscal year 2006. During an audit of the CAFS program, it was determined that the School District was to receive an additional \$51,000 in reimbursements for prior fiscal years. This reimbursement was received by the School District in fiscal years 2008 and 2009. The School District does not expect to receive any reimbursement during the forecasted period.

The ROTC program is a federally funded program established to train students interested in joining the military after they finish school. The School District forecasts this to decrease due to decline in student participation.

**East Cleveland City School District**  
 Cuyahoga County  
 Summary of Significant Assumptions and Accounting Policies  
 For the Fiscal Year Ending June 30, 2010

The Medicaid School Program (MSP) began July 1, 2009. This program is a collaborative effort between the Ohio Department of Job and Family Services as the state Medicaid agency and the Ohio Department of Education as the agency responsible for assuring that the Individuals with Disabilities Education Act is delivering health related services to eligible special needs students.

Other miscellaneous expenditures include rentals, contributions and donations, indirect costs and auditor adjustments. During fiscal years 2008 and 2009, the School District collected donations from the community to send the band to China to play for the Olympics. The School District forecasts contributions to decrease in fiscal year 2010 by \$587,000. Refund or prior year expenditures for the forecast year include refunds due to the School District from overpayment of excess costs.

All other revenues consist of the following:

Revenue Sources	Actual Fiscal Year 2007	Actual Fiscal Year 2008	Actual Fiscal Year 2009	Forecast Fiscal Year 2010	Variance Increase (Decrease)
Tuition and Open Enrollment	\$2,124,000	\$3,055,000	\$3,822,000	\$3,997,000	\$175,000
Interest on Investments	1,141,000	1,164,000	485,000	307,000	(178,000)
Classroom Materials and Fees	5,000	8,000	5,000	8,000	3,000
CAFS	0	22,000	29,000	0	(29,000)
ROTC	29,000	30,000	32,000	13,000	(19,000)
Medicaid School Program	0	0	0	22,000	22,000
E-Rate	519,000	0	0	0	0
Other Miscellaneous	222,000	349,000	780,000	193,000	(587,000)
Refund of Prior Year Expenditures	119,000	137,000	37,000	100,000	63,000
Totals	<u>\$4,159,000</u>	<u>\$4,765,000</u>	<u>\$5,190,000</u>	<u>\$4,640,000</u>	<u>(\$550,000)</u>

**G. - Other Financing Sources**

Transfers and Advances In – The School District anticipates receiving advances in of \$6,000,000 during the forecast period. During fiscal year 2009, the general fund advanced money to various grant funds in order to prevent the grant funds from ending the year with a deficit balance. Those advances are expected to be repaid during fiscal year 2010. The School District does not anticipate receiving any transfers in during the forecast period.

**Note 7 - Significant Assumptions for Expenditures and Other Financing Uses**

**A. - Personal Services**

Personal services expenditures represent the salaries and wages paid to certified employees, classified and administrative staff, substitutes, tutors, student workers and board members. In addition to regular salaries, it includes payment for supplemental contracts and severance pay. All employees receive their compensation on a bi-weekly basis. Administrative and non-bargaining unit salaries are set by the Board of Education. Staffing levels for the last three fiscal years and the forecast period are displayed in the following chart. The amounts represent full time equivalents.

**East Cleveland City School District**  
Cuyahoga County  
Summary of Significant Assumptions and Accounting Policies  
For the Fiscal Year Ending June 30, 2010

	2007	2008	2009	2010
General Fund:				
Certified	276	267	259	258
Classified	108	107	106	112
Total General Fund	384	374	365	370
Other Funds:				
Certified	20	20	9	14
Classified	12	12	19	22
Total Other Funds	32	32	28	36
Totals	416	406	393	406

Certified (teaching) staff salaries are based on a negotiated contract which includes base and step increases and educational incentives for existing staff. The contract covers the period beginning July 1, 2006 through August 17, 2009, and allows for three percent increases in the base salary and step increases ranging from 3 to 6 percent in fiscal years 2007, 2008 and 2009. The contract for certified staff has expired and a new contract has not been finalized. The \$539,000 decrease in certified salaries in fiscal year 2010 is due to a reduction of ten positions offset by step increases and educational incentives.

Classified salaries are based on a negotiated contract which includes base and step increases. The contract for classified staff covers the period beginning July 1, 2007 through June 30, 2010. The contract allows for three percent increases in the base salary as well as an average step increase of 3.64 percent in fiscal years 2008, 2009 and 2010. Classified salaries are forecasted to increase by \$92,000 due to base salary and step increases plus the addition of five new positions.

Substitute salaries are expected to increase by \$54,000 during the forecast period due to more substitutes needed for longer periods during fiscal year 2010. Supplementary contracts are expected to increase by \$6,000 during the forecast period due to an increase in supplemental costs being paid out of the general fund.

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

Other salaries and wages include mentor pay, optional day pays, class coverage pay, student workers and board compensation. Other salaries and wages are expected to increase \$29,000 due to base salary and step increases.

**East Cleveland City School District**  
 Cuyahoga County  
 Summary of Significant Assumptions and Accounting Policies  
 For the Fiscal Year Ending June 30, 2010

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

	Actual Fiscal Year 2007	Actual Fiscal Year 2008	Actual Fiscal Year 2009	Forecast Fiscal Year 2010	Variance Increase (Decrease)
Certified Salaries	\$17,295,000	\$17,542,000	\$17,247,000	\$16,708,000	(\$539,000)
Classified Salaries	4,310,000	4,280,000	4,423,000	4,515,000	92,000
Substitute Salaries	586,000	638,000	915,000	969,000	54,000
Supplemental Contracts	234,000	230,000	250,000	256,000	6,000
Severance Pay	112,000	116,000	98,000	153,000	55,000
Other Salaries and Wages	201,000	257,000	554,000	583,000	29,000
Totals	<u>\$22,738,000</u>	<u>\$23,063,000</u>	<u>\$23,487,000</u>	<u>\$23,184,000</u>	<u>(\$303,000)</u>

**B. – Employees’ Retirement/Insurance Benefits**

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

Retirement costs are based on the employers’ contribution rate of 14 percent of salaries for STRS and SERS and an additional SERS surcharge levied to fund health care benefits for employees earning less than a minimum salary amount. Payments are made based upon estimated salary and wages for each fiscal year. Adjustments resulting from differences between the estimated and actual expenditures are prorated over the next calendar year. The School District pays the employee retirement contributions for the superintendent and treasurer. The increase in employer retirement contributions is due to the base and step increases in salaries.

In years past, SERS has been paid six months in arrears in Ohio school districts. On March 18, 2010, the SERS board decided to give the school districts two options. Option one is for the school district to pay the six month arrearage by June 30, 2010, to become current. Option two is for SERS to spread the six month arrearage amount over the next six years adding this to the current payment. East Cleveland City School District has chosen option one; therefore, the School District’s retirement costs will increase during fiscal year 2010. The SERS change in the timing of payments in fiscal year 2010 accounts for the increase in retirement costs.

Health care costs are based on rates recommended by and agreed to by the various insurance companies and the Board of Education. Over 50 percent of covered employees are in a preferred provider medical plan and the remaining employees are in a traditional medical plan. Health care costs are fixed for a twelve month period from October through September. The following is a chart detailing the employee co-pays:

**East Cleveland City School District**  
 Cuyahoga County  
 Summary of Significant Assumptions and Accounting Policies  
 For the Fiscal Year Ending June 30, 2010

Health Care Plan	Certified	Classified
<b>Kaiser HMO</b>		
Single	\$50	\$30
Two Person	70	40
Family	90	50
<b>Anthem Blue</b>		
Single	120	60
Two Person	240	80
Family	330	100

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

Health Care Plan	Effective October 1, 2007		Effective October 1, 2008		Effective October 1, 2009	
	Certified	Classified	Certified	Classified	Certified	Classified
<b>Kaiser HMO</b>						
Single	\$344.62	\$374.62	\$389.17	\$414.17	\$452.40	\$464.95
Two Person	719.23	759.23	808.34	843.34	933.90	949.90
Family	1,093.86	1,143.86	1,227.51	1,272.51	1,415.44	1,434.85
<b>Anthem Blue</b>						
<b>Access PPO</b>						
Single	515.23	595.23	670.85	740.85	761.72	814.27
Two Person	1,030.53	1,210.53	1,341.79	1,511.79	1,522.59	1,668.54
Family	1,448.77	1,698.77	1,884.53	2,124.53	2,138.55	2,347.96

Vision benefits for certified employees are provided by EyeMed with gross monthly charges per person of \$7.45 for singles, \$14.05 for two persons and \$20.59 for families for fiscal years 2007, 2008 and 2009.

Life insurance premiums are based on the coverage amount and the anticipated number of employees participating in the program. Health care and life insurance benefits increased due to an increase in premium as well as more employees participating in the program.

Workers' compensation is based on the School District's assigned rate and the amount of wages paid in a calendar year. Premiums are paid in the following calendar year. The School District may choose to pay the entire premium in May or 45 percent in May and 55 percent in September. The School District anticipates paying the entire premium in May as in prior years. The premium for calendar year 2009, due in May 2010, decreased from \$3.79 per hundred dollars of payroll to \$3.23 per hundred dollars of payroll.

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

**East Cleveland City School District**  
 Cuyahoga County  
 Summary of Significant Assumptions and Accounting Policies  
 For the Fiscal Year Ending June 30, 2010

Upon retirement, the School District offers its certified employees severance pay of 50 percent of their unused sick leave up to a maximum of 160 days paid, if notification of retirement is given to the School District by March 31. The severance pay is reduced to 25 percent if notification of retirement is received after March 31. Classified employees are entitled to severance pay of 35 percent of their unused sick leave, up to a maximum of 103 days paid. Severance pay included in the salaries section of this forecast includes only those employees eligible to retire who are below 55 years of age. Severance pay for employees eligible for retirement and age 55 or more, is paid into the Valic plan. The Valic plan is classified as an employee benefit. The increase in severance pay of \$324,000 is due to more employees retiring in fiscal year 2010 than in fiscal year 2009.

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

	Actual Fiscal Year 2007	Actual Fiscal Year 2008	Actual Fiscal Year 2009	Forecast Fiscal Year 2010	Variance Increase (Decrease)
Employer's Retirement	\$3,717,000	\$3,823,000	\$3,352,000	\$3,481,000	\$129,000
Health Care/Life Insurance	3,353,000	3,504,000	3,901,000	4,439,000	538,000
Workers' Compensation	451,000	449,000	838,000	756,000	(82,000)
Medicare	182,000	204,000	209,000	214,000	5,000
Severance Pay/Valic Plan	307,000	639,000	302,000	626,000	324,000
Totals	<u>\$8,010,000</u>	<u>\$8,619,000</u>	<u>\$8,602,000</u>	<u>\$9,516,000</u>	<u>\$914,000</u>

**C. - Purchased Services**

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

	Actual Fiscal Year 2007	Actual Fiscal Year 2008	Actual Fiscal Year 2009	Forecast Fiscal Year 2010	Variance Increase (Decrease)
Professional and Technical Services	\$1,419,000	\$1,457,000	\$1,717,000	\$1,707,000	(\$10,000)
Property Services	864,000	862,000	895,000	844,000	(51,000)
Travel and Meeting Expenses	25,000	49,000	77,000	29,000	(48,000)
Communication Cost	411,000	380,000	234,000	253,000	19,000
Utility Services	970,000	1,047,000	692,000	613,000	(79,000)
Trade Services	11,000	9,000	12,000	11,000	(1,000)
Tuition Payments	7,607,000	7,726,000	8,370,000	7,736,000	(634,000)
Pupil Transportation	361,000	475,000	640,000	576,000	(64,000)
Other Purchased Services	272,000	50,000	46,000	155,000	109,000
Totals	<u>\$11,940,000</u>	<u>\$12,055,000</u>	<u>\$12,683,000</u>	<u>\$11,924,000</u>	<u>(\$759,000)</u>

Professional and technical services are forecasted to decrease mainly due to decreased legal services for property purchases. Property services will decrease since all of the new buildings are now open and will require fewer services than the old buildings. Travel and meeting expenses decreased due to the Board's efforts to contain costs. Communication costs are increasing due to the phone systems being operational in all of the new buildings and all of the new buildings being occupied. Utility services are decreasing due to the new buildings have more efficient utility systems. Tuition payments will decrease due to the School District consolidating efforts to stop the flow of students to the community schools. Other purchased services will increase due to students taking more field trips during the current fiscal year.

**East Cleveland City School District**  
 Cuyahoga County  
 Summary of Significant Assumptions and Accounting Policies  
 For the Fiscal Year Ending June 30, 2010

**D. - Supplies and Materials**

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

	Actual Fiscal Year 2007	Actual Fiscal Year 2008	Actual Fiscal Year 2009	Forecast Fiscal Year 2010	Variance Increase (Decrease)
General Supplies, Library Books and Periodicals	\$402,000	\$427,000	\$780,000	\$739,000	(\$41,000)
Operations, Maintenance and Repair	233,000	360,000	393,000	389,000	(4,000)
Textbooks	526,000	722,000	895,000	658,000	(237,000)
Totals	<u>\$1,161,000</u>	<u>\$1,509,000</u>	<u>\$2,068,000</u>	<u>\$1,786,000</u>	<u>(\$282,000)</u>

General supplies, library books and periodicals will decrease due to the School District replenishing general supplies and making major purchases of books and periodicals in the prior year. Operations, maintenance and repairs are anticipated to decrease slightly due to the School District not having relocation costs associated with moving into the new buildings. The decrease in textbooks is due to the School District replacing many out-dated textbooks in the prior year.

**E. - Capital Outlay**

The costs of property, plant and equipment acquired or constructed for general services are recorded as expenditures. The decrease of \$190,000 for fiscal year 2010 is due to the School District making necessary purchases of new equipment and much needed upgrades to the existing equipment in fiscal year 2009. Planned equipment purchases include computers, monitors, office equipment, desks, workstations, chairs and security alarms will be made in fiscal year 2011.

**F. - Other Objects**

Other object expenditures consist of dues and fees, insurance and awards. A decrease of \$172,000 is forecast due to decreases in dues, fees, memberships and County Auditor delinquent land tax deductions.

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

Transfers out are anticipated during fiscal year 2010 to the athletics fund in the amount of \$250,000 to provide additional resources for current operations. The general fund is anticipating advances out in fiscal year 2010 in the amount of \$6,000,000 due to the timing of the receipt of grant monies to the various funds. The general fund provides temporary funding of the program until the grant dollars are received.

**Note 8 - Encumbrances**

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

**East Cleveland City School District**  
Cuyahoga County  
Summary of Significant Assumptions and Accounting Policies  
For the Fiscal Year Ending June 30, 2010

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Encumbrances for purchased services, supplies and materials, capital outlay and other objects as of June 30, 2009 were \$2,617,000 and are forecasted at \$1,681,000 for June 30, 2010. The decrease was due to a large supply of textbooks ordered at the end of fiscal year 2009 were not received until fiscal year 2010. The School District does not anticipate the same thing occurring in fiscal year 2010.

**Note 9 - Reservations of Fund Balance**

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

**A. - Textbooks and Instructional Materials Set-Aside**

The set aside amount for fiscal year 2010 is \$588,000. The School District anticipates \$691,000 in qualifying expenditures during the current fiscal year. Therefore, no reserve for textbooks and instructional materials is forecasted.

**B. - Capital and Maintenance Set-Aside**

The set aside amount for fiscal year 2010 is \$588,000. The School District anticipates offsets from property taxes from the permanent improvement and classroom facilities levies of \$89,000 and \$650,000, respectively, as well as qualifying expenditures of \$215,000 to exceed the set aside requirement amount for fiscal year 2010. Therefore, no reserve amount is forecasted for capital acquisition and improvements.

**C. - Bus Purchases**

A bus purchase allowance of approximately \$20,000 was received in both fiscal years 2008 and 2009, but the School District did not purchase a bus in either of those fiscal years. The School District also does not anticipate purchasing a bus in fiscal year 2010. Therefore, a reserve amount of \$41,000 is forecast for a bus purchase.

**Note 10 - Levies**

In the past eleven years, the School District has not placed any levies on the ballot.

**Note 11 - Pending Litigation**

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

**Note 12 - Financial Planning and Supervision Commission**

On April 3, 2003, the School District was declared to be in a state of "Fiscal Emergency" by the Auditor of State. Legislation effective September 1996, permitted this declaration due to the School District's declining financial condition. In accordance with the law, a five-member Financial Planning and

**East Cleveland City School District**  
Cuyahoga County  
Summary of Significant Assumptions and Accounting Policies  
For the Fiscal Year Ending June 30, 2010

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Supervision Commission has been established to oversee the financial affairs of the School District. The Commission is comprised of the State Superintendent of Public Instruction and the State Director of Budget and Management or their designees, and three appointed members. The appointments are made by the Governor of the State of Ohio, the State Superintendent of Public Instruction and the Mayor of the City of East Cleveland. The Commission's primary charge is to develop, adopt and implement a financial recovery plan. Once the plan has been adopted, the Board of Education's discretion is limited in that all financial activity of the School District must in accordance with the plan.

The financial recovery plan was amended on June 24, 2008. The recovery plan update established the response to the report on accounting methods from the State Auditor's office as a priority for fiscal year 2009. In addition, the plan required the School District to monitor the levels of staffing for teachers, administrators and classified personnel with previously adopted staffing levels to be adjusted once student enrollment for the 2009 fiscal year was known and the School District's requests for personnel changes were finalized.

**Note 13 - Information Related to Periods Beyond the Forecast Period**

Management is required to annually prepare and file a five-year financial plan with the Ohio Department of Education. Management believes that the following information, although it does not constitute a financial forecast, is necessary in order for users to make a meaningful analysis of the forecast results. The plan assumes the continued operation of the School District with slight decreases in revenues. The plan also assumes increases in salaries and benefits for fiscal years 2009 through 2014. The operating surplus decreases to \$7,191,000 for fiscal year 2014. An updated five financial plan is required to be filed with the Ohio Department of Education by the end of May 2010 and will cover fiscal years 2010 through 2014.

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





**Mary Taylor, CPA**  
Auditor of State

**EAST CLEVELAND CITY SCHOOL DISTRICT**

**CUYAHOGA COUNTY**

**CLERK'S CERTIFICATION**

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

*Susan Babbitt*

**CLERK OF THE BUREAU**

**CERTIFIED  
JUNE 1, 2010**