



**EAST CLEVELAND CITY SCHOOL DISTRICT
CUYAHOGA COUNTY**

SINGLE AUDIT

FOR THE YEAR ENDED JUNE 30, 2001



JIM PETRO
AUDITOR OF STATE

STATE OF OHIO

EAST CLEVELAND CITY SCHOOL DISTRICT
CUYAHOGA COUNTY

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REPORT OF INDEPENDENT ACCOUNTANTS

Board of Education
East Cleveland City School District
Cuyahoga County
15305 Terrace Road
East Cleveland, Ohio 44112

We have audited the accompanying general-purpose financial statements of the East Cleveland City School District, Cuyahoga County, Ohio, (the District) as of and for the year ended June 30, 2001, as listed in the table of contents. These general-purpose financial statements are the responsibility of the District's management. Our responsibility is to express an opinion on these general-purpose financial statements based on our audit.

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

In our opinion, the general-purpose financial statements referred to above present fairly, in all material respects, the financial position of the East Cleveland City School District, Cuyahoga County, Ohio, as of June 30, 2001, and the results of its operations and the cash flows of its proprietary fund type for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated March 29, 2002 on our consideration of the District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

We performed our audit to form an opinion on the general-purpose financial statements of the District, taken as a whole. The accompanying schedule of federal awards expenditures is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the general-purpose financial statements. We subjected this information to the auditing procedures applied in the audit of the general-purpose financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the general-purpose financial statements taken as a whole.

Jim Petro
Auditor of State

March 29, 2002

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EAST CLEVELAND CITY SCHOOL DISTRICT

COMBINED BALANCE SHEET - ALL FUND TYPES AND ACCOUNT GROUPS

JUNE 30, 2001

	<u>Governmental Fund Types</u>			
	<u>General</u>	<u>Special Revenue</u>	<u>Debt Service</u>	<u>Capital Projects</u>
<u>ASSETS AND OTHER DEBITS</u>				
<u>Assets</u>				
Cash and Cash Equivalents	\$ 174,296	\$ 3,016,385	\$ 1,025,803	\$ 15,813,962
Receivables:				
Taxes	11,091,993	-	785,142	111,525
Accounts	15,750	-	-	-
Interest	-	-	-	66,455
Intergovernmental	252,204	480,658	-	-
Interfund Receivable	867,386	18,605	-	-
Inventory Held for Resale	-	10,525	-	-
Materials and Supplies Inventory	-	4,001	-	-
Restricted Assets:				
Cash and Cash Equivalents	1,249,929	-	-	-
Fixed Assets, Net of Accumulated Depreciation	-	-	-	-
<u>Other Debits</u>				
Amount Available in Debt Service Funds	-	-	-	-
Amount to be Provided for Retirement of General Long-Term Obligations	-	-	-	-
Total Assets and Other Debits	\$ <u>13,651,558</u>	\$ <u>3,530,174</u>	\$ <u>1,810,945</u>	\$ <u>15,991,942</u>

See Accompanying Notes to the General Purpose Financial Statements

<u>Proprietary Fund Types</u>	<u>Fiduciary Fund Types</u>	<u>Account Groups</u>		<u>Total (Memorandum Only)</u>
		<u>General Fixed Assets</u>	<u>General Long-term Obligations</u>	
<u>Enterprise</u>	<u>Trust and Agency</u>			
\$ 43,366	\$ 124,898	\$ -	\$ -	\$ 20,198,710
-	-	-	-	11,988,660
-	-	-	-	15,750
-	-	-	-	66,455
-	-	-	-	732,862
-	-	-	-	885,991
-	-	-	-	10,525
-	-	-	-	4,001
-	-	-	-	1,249,929
380	-	43,755,509	-	43,755,889
-	-	-	1,025,803	1,025,803
<u>-</u>	<u>-</u>	<u>-</u>	<u>16,240,354</u>	<u>16,240,354</u>
\$ <u>43,746</u>	\$ <u>124,898</u>	\$ <u>43,755,509</u>	\$ <u>17,266,157</u>	\$ <u>96,174,929</u>

(Continued)

EAST CLEVELAND CITY SCHOOL DISTRICT

COMBINED BALANCE SHEET - ALL FUND TYPES AND ACCOUNT GROUPS

(CONTINUED)

JUNE 30, 2001

<u>LIABILITIES, FUND EQUITY AND OTHER CREDITS</u>	Governmental Fund Types			
	<u>General</u>	<u>Special Revenue</u>	<u>Debt Service</u>	<u>Capital Projects</u>
<u>Liabilities</u>				
Accounts Payable	\$ 387,597	\$ 451,463	\$ -	\$ 412,707
Accrued Wages and Benefits	5,816,159	1,494,664	-	-
Accrued Compensated Absences	174,200	14,932	-	-
Intergovernmental Payable	1,395,281	235,302	-	-
Interfund Payable	-	880,991	-	-
Deferred Revenue	11,091,993	-	785,142	111,525
General Obligation Bonds Payable	-	-	-	-
Total Liabilities	<u>18,865,230</u>	<u>3,077,352</u>	<u>785,142</u>	<u>524,232</u>
<u>Fund Equity and Other Credits</u>				
Investment in General Fixed Assets	-	-	-	-
Retained Earnings	-	-	-	-
Fund Balance:				
Reserve for Encumbrances	752,717	401,140	-	135,761
Reserve for Inventory	-	4,001	-	-
Reserve for Textbooks	385,920	-	-	-
Reserve for Budget Stabilization	864,009	-	-	-
Unreserved (Deficit)	<u>(7,216,318)</u>	<u>47,681</u>	<u>1,025,803</u>	<u>15,331,949</u>
Total Fund Equity and Other Credits	<u>(5,213,672)</u>	<u>452,822</u>	<u>1,025,803</u>	<u>15,467,710</u>
Total Liabilities, Fund Equity and Other Credits	<u>\$ 13,651,558</u>	<u>\$ 3,530,174</u>	<u>\$ 1,810,945</u>	<u>\$ 15,991,942</u>

See Accompanying Notes to the General Purpose Financial Statements

<u>Proprietary Fund Types</u>	<u>Fiduciary Fund Types</u>	<u>Account Groups</u>		<u>Total (Memorandum Only)</u>
		<u>General Fixed Assets</u>	<u>General Long-term Obligations</u>	
<u>Enterprise</u>	<u>Trust and Agency</u>			
\$ 125	\$ -	\$ -	\$ -	\$ 1,251,892
9,627	1,220	-	-	7,321,670
-	-	-	6,978,142	7,167,274
964	97,808	-	458,015	2,187,370
5,000	-	-	-	885,991
-	-	-	-	11,988,660
-	-	-	9,830,000	9,830,000
<u>15,716</u>	<u>99,028</u>	<u>-</u>	<u>17,266,157</u>	<u>40,632,857</u>
-	-	43,755,509	-	43,755,509
28,030	-	-	-	28,030
-	2,242	-	-	1,291,860
-	-	-	-	4,001
-	-	-	-	385,920
-	-	-	-	864,009
-	23,628	-	-	9,212,743
<u>28,030</u>	<u>25,870</u>	<u>43,755,509</u>	<u>-</u>	<u>55,542,072</u>
\$ <u>43,746</u>	\$ <u>124,898</u>	\$ <u>43,755,509</u>	\$ <u>17,266,157</u>	\$ <u>96,174,929</u>

EAST CLEVELAND CITY SCHOOL DISTRICT

COMBINED STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES - ALL GOVERNMENTAL FUND TYPES AND EXPENDABLE TRUST FUNDS FOR THE YEAR ENDED JUNE 30, 2001

	<u>General</u>	<u>Special Revenue</u>
<u>Revenue</u>		
Property Taxes	\$ 9,501,062	\$ -
Intergovernmental	30,904,323	14,184,474
Tuition and Fees	73,269	-
Earnings on Investments	537,082	2,281
Food Service	-	206,225
Extracurricular Activities	4,675	133,162
Classroom Materials and Fees	1,058	-
Miscellaneous	126,920	300,178
Total Revenue	41,148,389	14,826,320
<u>Expenditures</u>		
Current:		
Instruction:		
Regular	22,605,302	2,867,145
Special	4,400,359	2,905,021
Vocational	1,718,685	210,085
Adult/Continuing	-	163,969
Other	698,549	-
Support Services:		
Pupils	2,051,287	1,082,383
Instructional Staff	2,421,210	1,675,931
Board of Education	581,668	-
Administration	4,943,057	577,733
Fiscal Services	1,055,541	6,532
Business	388,183	-
Operations and Maintenance of Plant	5,417,456	873,665
Pupil Transportation	1,279,549	39,297
Central Services	2,620,604	73,052
Operation of Non-Instructional Services	37,758	2,838,076
Extracurricular Activities	428,794	201,501
Capital Outlay	327,747	-
Debt Service:		
Principal Payment	-	-
Interest and Fiscal Charges	-	-
Total Expenditures	50,975,749	13,514,390
Excess of Revenues Over (Under) Expenditures	(9,827,360)	1,311,930

See Accompanying Notes to the General Purpose Financial Statements

<u>Debt Service</u>	<u>Capital Projects</u>	<u>Expendable Trust</u>	<u>Total (Memorandum Only)</u>
\$ 638,383	\$ 89,478	\$ -	\$ 10,228,923
100,255	369,121	-	45,558,173
-	-	-	73,269
-	1,245,098	-	1,784,461
-	-	-	206,225
-	-	-	137,837
-	-	-	1,058
-	11,800	-	438,898
<u>738,638</u>	<u>1,715,497</u>	<u>-</u>	<u>58,428,844</u>
-	289,611	22,168	25,784,226
-	-	-	7,305,380
-	-	500	1,929,270
-	-	-	163,969
-	-	-	698,549
-	-	-	3,133,670
-	8,432	-	4,105,573
-	-	-	581,668
-	-	-	5,520,790
-	9,516	-	1,071,589
-	-	-	388,183
-	-	-	6,291,121
-	-	-	1,318,846
-	48,521	-	2,742,177
-	-	-	2,875,834
-	-	-	630,295
-	10,079,995	-	10,407,742
370,000	-	-	370,000
<u>424,772</u>	<u>-</u>	<u>-</u>	<u>424,772</u>
<u>794,772</u>	<u>10,436,075</u>	<u>22,668</u>	<u>75,743,654</u>
<u>(56,134)</u>	<u>(8,720,578)</u>	<u>(22,668)</u>	<u>(17,314,810)</u>

(Continued)

EAST CLEVELAND CITY SCHOOL DISTRICT

COMBINED STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES - ALL GOVERNMENTAL FUND TYPES AND EXPENDABLE TRUST FUNDS (CONTINUED)

FOR THE YEAR ENDED JUNE 30, 2001

	<u>General</u>	<u>Special Revenue</u>
<u>Other Financing Sources (Uses)</u>		
Transfers - In	2,135,193	162,480
Refund of Prior Year Expenditures	386,487	-
Transfers - Out	(265,107)	(2,187,193)
Refund of Prior Years Receipts	-	(52)
Total Other Financing Sources (Uses)	<u>2,256,573</u>	<u>(2,024,765)</u>
Excess of Revenues and Other Financing Sources Over (Under) Expenditures and Other Financing Uses	<u>(7,570,787)</u>	<u>(712,835)</u>
Fund Balance at Beginning of Year	2,357,115	1,165,876
Decrease in Reserve for Inventory	<u>-</u>	<u>(219)</u>
Fund Balance (Deficit) at End of Year	\$ <u>(5,213,672)</u>	\$ <u>452,822</u>

See Accompanying Notes to the General Purpose Financial Statements

<u>Debt Service</u>	<u>Capital Projects</u>	<u>Expendable Trust</u>	<u>Total (Memorandum Only)</u>
-	-	-	2,297,673
-	-	-	386,487
-	-	-	(2,452,300)
-	-	-	(52)
<u>-</u>	<u>-</u>	<u>-</u>	<u>231,808</u>
<u>(56,134)</u>	<u>(8,720,578)</u>	<u>(22,668)</u>	<u>(17,083,002)</u>
1,081,937	24,188,288	48,538	28,841,754
<u>-</u>	<u>-</u>	<u>-</u>	<u>(219)</u>
\$ <u>1,025,803</u>	\$ <u>15,467,710</u>	\$ <u>25,870</u>	\$ <u>11,758,533</u>

EAST CLEVELAND CITY SCHOOL DISTRICT

COMBINED STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES - BUDGET (NON-GAAP BUDGETARY BASIS) AND ACTUAL - ALL GOVERNMENTAL FUND TYPES FOR THE YEAR ENDED JUNE 30, 2001

	General Fund		Variance Favorable (Unfavorable)
	Budget	Actual	
<u>Revenues</u>			
From Local Sources:			
Property Taxes	\$ 10,873,137	\$ 10,539,493	\$ (333,644)
Tuition and Fees	75,588	73,269	(2,319)
Earnings on Investments	603,673	585,149	(18,524)
Extracurricular Activities	4,823	4,675	(148)
Classroom Materials and Fees	1,091	1,058	(33)
Miscellaneous	114,689	111,170	(3,519)
From State Sources:			
Unrestricted Grants-In-Aid	31,103,892	30,149,464	(954,428)
Restricted Grants-In-Aid	140,140	135,840	(4,300)
From Federal Sources:			
Unrestricted Grants-In-Aid	442,255	428,684	(13,571)
Total Revenues	<u>43,359,288</u>	<u>42,028,802</u>	<u>(1,330,486)</u>
<u>Expenditures</u>			
Current:			
Instruction:			
Regular	22,909,543	22,340,116	569,427
Special	4,521,783	4,409,392	112,391
Vocational	1,723,325	1,680,491	42,834
Other	716,354	698,549	17,805
Support Services:			
Pupils	1,941,412	1,893,157	48,255
Instructional Staff	2,437,362	2,376,780	60,582
Board of Education	624,908	609,376	15,532
Administration	4,583,086	4,469,171	113,915
Fiscal Services	1,010,264	985,153	25,111
Business	392,748	382,986	9,762
Operation and Maintenance of Plant	5,183,547	5,054,708	128,839
Pupil Transportation	1,259,664	1,228,355	31,309
Central Services	2,602,884	2,538,188	64,696
Operation of Non-Instructional Services	29,746	29,007	739
Extracurricular Activities	440,404	429,458	10,946
Capital Outlay	395,169	385,347	9,822
Total Expenditures	<u>50,772,199</u>	<u>49,510,234</u>	<u>1,261,965</u>
Excess of Revenues Over (Under) Expenditures	(7,412,911)	(7,481,432)	(68,521)

(Continued)

See Accompanying Notes to the General Purpose Financial Statements

EAST CLEVELAND CITY SCHOOL DISTRICT

COMBINED STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES - BUDGET (NON-GAAP BUDGETARY BASIS) AND ACTUAL - ALL GOVERNMENTAL FUND TYPES (CONTINUED) FOR THE YEAR ENDED JUNE 30, 2001

	General Fund		Variance Favorable (Unfavorable)
	Budget	Actual	
<u>Other Financing Sources (Uses)</u>			
Proceeds from Sale of Assets	7,865	7,865	-
Transfers - In	8,609,958	2,135,193	(6,474,765)
Advances - In	517,483	460,000	(57,483)
Refund of Prior Year Expenditures	397,131	397,131	-
Transfers - Out	(6,739,872)	(265,107)	6,474,765
Advances - Out	(640,397)	(582,914)	57,483
Total Other Financing Sources(Uses)	2,152,168	2,152,168	-
Excess of Revenues and Other Financing Sources Over (Under) Expenditures and Other Financing Uses	(5,260,743)	(5,329,264)	(68,521)
Cash Fund Balance, Beginning of Year	5,867,611	5,867,611	-
Encumbrances at End of Year	820,016	820,016	-
Total Cash Fund Balance, End of Year	\$ 1,426,884	\$ 1,358,363	\$ (68,521)

(Continued)

See Accompanying Notes to the General Purpose Financial Statements

EAST CLEVELAND CITY SCHOOL DISTRICT

COMBINED STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES - BUDGET (NON-GAAP BUDGETARY BASIS) AND ACTUAL - ALL GOVERNMENTAL FUND TYPES (CONTINUED) **FOR THE YEAR ENDED JUNE 30, 2001**

<u>Revenues</u>	Special Revenue Fund		
	Budget	Actual	Variance Favorable (Unfavorable)
From Local Sources:			
Earnings on Investments	\$ 2,222	\$ 2,281	\$ 59
Food Service	200,936	206,225	5,289
Extracurricular Activities	129,747	133,162	3,415
Miscellaneous	292,480	300,178	7,698
From Intermediate Sources:			
Restricted Grants-In-Aid	181,507	186,284	4,777
From State Sources:			
Unrestricted Grants-In-Aid	1,509,992	1,549,735	39,743
Restricted Grants-In-Aid	5,504,659	5,649,543	144,884
From Federal Sources:			
Unrestricted Grants-In-Aid	1,522,520	1,562,593	40,073
Restricted Grants-In-Aid	4,879,720	5,008,156	128,436
Total Revenues	14,223,783	14,598,157	374,374
<u>Expenditures</u>			
Current:			
Instruction:			
Regular	2,808,829	2,466,001	342,828
Special	3,205,475	2,814,235	391,240
Vocational	251,002	220,366	30,636
Adult/Continuing	206,231	181,060	25,171
Supporting Services:			
Pupil	1,161,135	1,019,414	141,721
Instructional Staff	1,884,306	1,654,320	229,986
Administration	549,789	482,685	67,104
Fiscal Services	7,440	6,532	908
Operation and Maintenance of Plant	1,098,399	964,335	134,064
Pupil Transportation	44,413	38,992	5,421
Central Services	97,526	85,623	11,903
Operation of Non-Instructional Services	3,049,353	2,677,168	372,185
Extracurricular Activities	262,317	230,300	32,017
Total Expenditures	14,626,215	12,841,031	1,785,184
Excess of Revenues Over (Under) Expenditures	(402,432)	1,757,126	2,159,558

(Continued)

See Accompanying Notes to the General Purpose Financial Statements

EAST CLEVELAND CITY SCHOOL DISTRICT

COMBINED STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES - BUDGET (NON-GAAP BUDGETARY BASIS) AND ACTUAL - ALL GOVERNMENTAL FUND TYPES (CONTINUED) FOR THE YEAR ENDED JUNE 30, 2001

	Special Revenue Fund		Variance Favorable (Unfavorable)
	Budget	Actual	
<u>Other Financing Sources (Uses)</u>			
Advances - In	640,397	582,914	(57,483)
Transfers - In	1,106,990	162,480	(944,510)
Transfers - Out	(3,131,703)	(2,187,193)	944,510
Advances-Out	(517,483)	(460,000)	57,483
Refund of Prior Year Receipts	(52)	(52)	-
Total Other Financing Sources (Uses)	(1,901,851)	(1,901,851)	-
Excess of Revenues and Other Financing Sources Over (Under) Expenditures and Other Financing Uses	(2,304,283)	(144,725)	2,159,558
Cash Fund Balance, Beginning of Year	2,540,491	2,540,491	-
Encumbrances at End of Year	620,619	620,619	-
Total Cash Fund Balance, End of Year	\$ 856,827	\$ 3,016,385	\$ 2,159,558

(Continued)

See Accompanying Notes to the General Purpose Financial Statements

EAST CLEVELAND CITY SCHOOL DISTRICT

COMBINED STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES - BUDGET (NON-GAAP BUDGETARY BASIS) AND ACTUAL - ALL GOVERNMENTAL FUND TYPES (CONTINUED) FOR THE YEAR ENDED JUNE 30, 2001

	Debt Service Fund		Variance Favorable (Unfavorable)
	Budget	Actual	
<u>Revenues</u>			
From Local Sources:			
Property Taxes	\$ 708,816	\$ 708,816	\$ -
From State Sources:			
Unrestricted Grants-In-Aid	<u>100,255</u>	<u>100,255</u>	<u>-</u>
Total Revenues	<u>809,071</u>	<u>809,071</u>	<u>-</u>
<u>Expenditures</u>			
Debt Service:			
Principal Retirement	847,554	370,000	477,554
Interest and Fiscal Charges	<u>973,021</u>	<u>424,772</u>	<u>548,249</u>
Total Expenditures	<u>1,820,575</u>	<u>794,772</u>	<u>1,025,803</u>
Excess of Revenues Over (Under) Expenditures	(1,011,504)	14,299	1,025,803
Cash Fund Balance, Beginning of Year	<u>1,011,504</u>	<u>1,011,504</u>	<u>-</u>
Total Cash Fund Balance, End of Year	\$ <u>-</u>	\$ <u>1,025,803</u>	\$ <u>1,025,803</u>

(Continued)

See Accompanying Notes to the General Purpose Financial Statements

EAST CLEVELAND CITY SCHOOL DISTRICT

COMBINED STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES - BUDGET (NON-GAAP BUDGETARY BASIS) AND ACTUAL - ALL GOVERNMENTAL FUND TYPES (CONTINUED) **FOR THE YEAR ENDED JUNE 30, 2001**

	Capital Projects Fund		
	Budget	Actual	Variance Favorable (Unfavorable)
<u>Revenues</u>			
From Local Sources:			
Property Taxes	\$ 95,233	\$ 99,347	\$ 4,114
Earnings on Investments	1,129,834	1,178,643	48,809
Miscellaneous	11,311	11,800	489
From State Sources:			
Restricted Grants-In-Aid	<u>353,835</u>	<u>369,121</u>	<u>15,286</u>
Total Revenues	<u>1,590,213</u>	<u>1,658,911</u>	<u>68,698</u>
<u>Expenditures</u>			
Current:			
Instruction:			
Regular	1,008,615	399,077	609,538
Supporting Services:			
Instructional Staff	21,311	8,432	12,879
Fiscal Services	24,051	9,516	14,535
Central Services	189,085	74,815	114,270
Capital Outlay	<u>24,525,570</u>	<u>9,703,990</u>	<u>14,821,580</u>
Total Expenditures	<u>25,768,632</u>	<u>10,195,830</u>	<u>15,572,802</u>
Excess of Revenues Over (Under) Expenditures	(24,178,419)	(8,536,919)	15,641,500
Cash Fund Balance, Beginning of Year	24,178,419	24,178,419	-
Encumbrances at End of Year	<u>172,462</u>	<u>172,462</u>	<u>-</u>
Total Cash Fund Balance, End of Year	\$ <u>172,462</u>	\$ <u>15,813,962</u>	\$ <u>15,641,500</u>

(Continued)

See Accompanying Notes to the General Purpose Financial Statements

EAST CLEVELAND CITY SCHOOL DISTRICT

COMBINED STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES - BUDGET (NON-GAAP BUDGETARY BASIS) AND ACTUAL - ALL GOVERNMENTAL FUND TYPES (CONTINUED) FOR THE YEAR ENDED JUNE 30, 2001

	Expendable Trust Fund		
	Budget	Actual	Variance Favorable (Unfavorable)
<u>Revenues</u>			
From Local Sources:			
Miscellaneous	\$ (3,972)	\$ (2,708)	\$ 1,264
<u>Expenditures</u>			
Current:			
Instruction:			
Regular	43,504	20,482	23,022
Vocational	<u>1,062</u>	<u>500</u>	<u>562</u>
Total Expenditures	<u>44,566</u>	<u>20,982</u>	<u>23,584</u>
Excess of Revenues Over (Under) Expenditures	(48,538)	(23,690)	24,848
Cash Fund Balance, Beginning of Year	48,538	48,538	-
Encumbrances at End of Year	<u>2,242</u>	<u>2,242</u>	<u>-</u>
Total Cash Fund Balance, End of Year	\$ <u><u>2,242</u></u>	\$ <u><u>27,090</u></u>	\$ <u><u>24,848</u></u>

See Accompanying Notes to the General Purpose Financial Statements

EAST CLEVELAND CITY SCHOOL DISTRICT

COMBINED STATEMENT OF REVENUES, EXPENSES AND CHANGES IN RETAINED EARNINGS - ALL PROPRIETARY FUND TYPES

FOR THE YEAR ENDED JUNE 30, 2001

	<u>Enterprise Funds</u>
Operating Revenue	
Tuition	\$ 22,746
Classroom Materials and Fees	<u>32,208</u>
Total Operating Revenue	<u>54,954</u>
Operating Expenses	
Principal Payment	79,337
Fringe Benefits	10,183
Contractual Services	26,619
Supplies and Materials	205,731
Capital Outlay	3,559
Depreciation Expense	<u>498</u>
Total Operating Expenses	<u>325,927</u>
Operating Loss	<u>(270,973)</u>
Non-Operating Revenue (Expense)	
Operating Grants	180
Transfers - In	<u>152,000</u>
Total Non-Operating Revenue (Expenses)	<u>152,180</u>
Net Loss	(118,793)
Retained Earnings at Beginning of Year	<u>146,823</u>
Retained Earnings at End of Year	\$ <u><u>28,030</u></u>

See Accompanying Notes to the General Purpose Financial Statements

EAST CLEVELAND CITY SCHOOL DISTRICT

COMBINED STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND EQUITY – BUDGET (NON-GAAP BUDGETARY BASIS) AND ACTUAL – ALL PROPRIETARY FUND TYPES

FOR THE YEAR ENDED JUNE 30, 2001

	Enterprise Funds		
	Budget	Actual	Variance Favorable (Unfavorable)
<u>Revenues</u>			
From Local Sources:			
Tuition and Fees	\$ 22,746	\$ 22,746	\$ -
Classroom Materials and Fees	32,208	32,208	-
From State Sources:			
Unrestricted Grants-In-Aid	<u>180</u>	<u>180</u>	<u>-</u>
Total Revenues	<u>55,134</u>	<u>55,134</u>	<u>-</u>
<u>Expenses</u>			
Salaries and Wages	77,557	72,034	5,523
Fringe Benefits	10,964	10,183	781
Contractual Services	43,259	40,178	3,081
Supplies and Materials	<u>229,586</u>	<u>213,235</u>	<u>16,351</u>
Total Expenses	<u>361,366</u>	<u>335,630</u>	<u>25,736</u>
Excess of Revenues Over (Under) Expenditures	(306,232)	(280,496)	(25,736)
<u>Other Financing Sources (Uses)</u>			
Transfers - In	<u>152,000</u>	<u>152,000</u>	<u>-</u>
Excess of Revenues and Other Financing Sources Over (Under) Expenditures and Other Financing Uses	(154,232)	(128,496)	(25,736)
Cash Fund Balance, Beginning of Year	154,233	154,233	-
Encumbrances at End of Year	<u>17,629</u>	<u>17,629</u>	<u>-</u>
Total Cash Fund Balance, End of Year	\$ <u>17,630</u>	\$ <u>43,366</u>	\$ <u>(25,736)</u>

See Accompanying Notes to the General Purpose Financial Statements

EAST CLEVELAND CITY SCHOOL DISTRICT

COMBINED STATEMENT OF CASH FLOWS - ALL PROPRIETARY FUND TYPES

FOR THE YEAR ENDED JUNE 30, 2001

	<u>Enterprise</u>
Increase (Decrease) in Cash and Cash Equivalents:	
Cash Flows From Operating Activities:	
Cash Received from Customers	\$ 32,208
Cash Received from Tuition Payments	22,746
Cash Payments to Suppliers for Goods and Services	(235,784)
Cash Payments to Employees for Services	(72,034)
Cash Payments for Employee Benefits	<u>(10,183)</u>
Net Cash Used for Operating Activities	<u>(263,047)</u>
Cash Flows from Non-capital Financing Activities:	
Operating Grants Received	180
Operating Transfers – In	<u>152,000</u>
Net Cash Provided by Non-capital Financing Activities	<u>152,180</u>
Net Decrease in Cash and Cash Equivalents	(110,867)
Cash and Cash Equivalents – Beginning of Year	<u>154,233</u>
Cash and Cash Equivalents – End of Year	\$ <u><u>43,366</u></u>
<u>Reconciliation of Operating Loss to Net Cash Used for Operating Activities</u>	
Operating Loss	\$ (270,973)
Adjustments:	
Depreciation	498
Increase (Decrease) in Liabilities:	
Accounts Payable	125
Accrued Wages and Benefits	7,327
Intergovernmental Payable	<u>(24)</u>
Total Adjustments	<u>7,926</u>
Net Cash Used for Operating Activities	\$ <u><u>(263,047)</u></u>

See Accompanying Notes to the General Purpose Financial Statements

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EAST CLEVELAND CITY SCHOOL DISTRICT

NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS

JUNE 30, 2001

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of East Cleveland City School District have been prepared in conformity with accounting principles generally accepted in the United States of America (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 School District also applies Financial Accounting Standards Board (FASB) statements and interpretations issued on or before November 30, 1989, to its proprietary activities provided they do not conflict with or contradict GASB pronouncements. The more significant of the School District's accounting policies are described below.

A. DESCRIPTION OF THE SCHOOL DISTRICT AND REPORTING ENTITY

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

The East Cleveland City School District (School District) is a body politic and corporate established for the purpose of exercising the rights and privileges conveyed to it by the constitution and laws of the State of Ohio. The School District operates under a locally-elected five-member Board form of government. Each member is elected to a four year term. The School District provides educational services as mandated by State and/or federal agencies. This Board of Education controls the School District's nine instructional/support facilities staffed by 250 classified employees, 450 certificated full-time teaching personnel, and 48 administrators who provide services to 5,648 students and other community members.

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

Component units are legally separate organizations for which the School District is financially accountable. The School District is financially accountable for an organization if the School District appoints a voting majority of the organization's governing board and (1) the School District is able to significantly influence the programs or services performed or provided by the organization; or (2) the School District is legally entitled to or can otherwise access the organization's resources; the School District is legally obligated or has otherwise assumed the responsibility to finance the deficits of, or provide financial support to, the organization; or the School District is obligated for the debt of the organization. Component units may also include organizations that are fiscally dependent on the School District in that the School District approves the budget, the issuance of debt or the levying of taxes. Currently, the School District does not have any component units.

The School District is associated with a related organization, an insurance purchasing pool and a jointly-governed organization. These organizations are the East Cleveland Public Library, Ohio School Boards Association Workers' Compensation Group Rating Plan, and the Ohio Schools Council Association. These organizations are presented in Notes 18, 19, and 20 to the general purpose financial statements.

EAST CLEVELAND CITY SCHOOL DISTRICT

NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS (CONTINUED)

JUNE 30, 2001

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

B. BASIS OF PRESENTATION - FUND ACCOUNTING

The accounts of the District are maintained on the basis of fund and account groups, each of which is considered a separate accounting entity. The operation of each fund is accounted for within a separate set of self-balancing accounts that comprise its assets, liabilities, fund equity, revenues and expenditures, or expenses, as appropriate. The following fund types and account groups are used by the District:

Governmental Funds

Governmental funds are those through which most governmental functions typically are financed. The acquisition, use, and balances of the District's expendable financial resources and the related current liabilities (except those accounted for in the proprietary funds) are accounted for through governmental funds. The measurement focus is upon determination of financial position and changes in financial position. The following are the District's governmental fund types:

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

Special Revenue Funds - Special Revenue Funds are used to account for proceeds of specific revenue sources (other than expendable trusts or major capital projects) that are legally restricted to expenditures for specified purposes.

Debt Service Fund - The Debt Service Fund is used to account for the accumulation of resources for, and the payment of, general long-term debt principal, interest, and related costs.

Capital Projects Funds - The Capital Projects Fund is used to account for financial resources to be used for the acquisition or construction of major capital facilities (other than those financed by Proprietary Funds and Trust Funds).

Proprietary Funds

The proprietary funds are used to account for the District's ongoing activities which are similar to those often found in the private sector. The measurement focus is upon determination of net income, financial position, and changes in financial position. The following is the District's proprietary fund type:

Enterprise Funds - Enterprise Funds are used to account for operations (a) that are financed and operated in a manner similar to private business enterprises, where the intent of the governing body is that the costs (expenses, including depreciation) of providing goods and services to the general public on a continuing basis be financed or recovered primarily through user charges; or (b) where the governing body has decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability or other purposes.

EAST CLEVELAND CITY SCHOOL DISTRICT

NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS (CONTINUED)

JUNE 30, 2001

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

B. BASIS OF PRESENTATION - FUND ACCOUNTING (CONTINUED)

Fiduciary Funds

Trust and Agency Funds are used to account for assets held by the District in a trustee capacity or as an agent for individuals, private organizations, other governmental units, and/or other funds. These include Expendable Trust, and Agency Funds. Expendable Trust Funds are accounted for in essentially the same manner as governmental funds. Agency Funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations.

Account Groups

To make a clear distinction between fixed assets related to a specific fund and those of general government, and between long-term liabilities related to specific funds and those of a general nature, the following account groups are used:

General Fixed Asset Account Group - Fixed assets acquired or constructed for general governmental services are recorded as expenditures in the fund making the expenditures and capitalized at cost in the General Fixed Assets Account Group.

General Long-Term Debt Account Group - This group of accounts is established to account for all long-term obligations of the District except those accounted for in the Proprietary Funds.

C. BASIS OF ACCOUNTING

Basis of accounting refers to when revenues, expenditures, expenses and transfers, and the related assets and liabilities are recognized in the accounts and reported in the financial statements. The accounting and reporting treatment applied to a fund is determined by its measurement focus.

Governmental fund types and expendable trust funds use the modified accrual basis of accounting. Under this basis, revenues and other financing sources are recognized in the accounting period in which they become available and measurable to finance current District operations. Expenditures and other financing uses are recognized in the accounting period in which the fund liability is incurred, if measurable, except for unmatured interest on general long-term debt, which is recognized when due.

Property tax receivables and revenues are susceptible to accrual if the date upon which the taxes are levied falls on or before June 30, 2001. Such revenue is to be recognized in the year for which it is levied or the year in which it is available for appropriation, provided it is available. Property taxes are considered available if they are due, or past due and received within the available period, and collected within the current period or soon enough thereafter to be used to pay liabilities of the current period. Property taxes not considered available are deferred.

The Proprietary Funds are accounted for on the accrual basis of accounting. Revenues are recognized in the period earned and expenses are recognized in the period incurred.

EAST CLEVELAND CITY SCHOOL DISTRICT

NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS (CONTINUED)

JUNE 30, 2001

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

D. BUDGETS AND BUDGETARY ACCOUNTING

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. The legal level of budgetary control is at the object level within each function. Any budgetary modifications at this level may only be made by resolution of the Board of Education.

Tax Budget

Prior to January 15, the Superintendent and Treasurer submit to the Board of Education a proposed operating budget for the fiscal year commencing the following July 1. The budget includes proposed expenditures and the means of financing for all funds. Public hearings are publicized and conducted to obtain taxpayers' comments. The express purpose of this budget document is to reflect the need for existing (or increased) tax rates.

By no later than January 20, the Board-adopted budget is filed with the Cuyahoga County Budget Commission for rate determination.

Estimated Resources

By April 1, the Board of Education accepts, by formal resolution, the tax rates as determined by the County Budget Commission and receives the commission's certificate of estimated resources which states the projected revenue of each fund. Prior to June 30, the School District must revise its budget so that total contemplated expenditures from any fund during the ensuing year will not exceed the amount stated in the certificate of estimated resources. The revised budget then serves as the basis for the appropriation measure.

On or about July 1, the certificate is amended to include any unencumbered cash balances from the preceding year. The certificate may be further amended during the year if projected increases or decreases in revenue are identified by the School District Treasurer. The amounts reported in the budgetary statement reflect the amounts in the final amended certificate issued during fiscal year 2001.

EAST CLEVELAND CITY SCHOOL DISTRICT

NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS (CONTINUED)

JUNE 30, 2001

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

D. BUDGETS AND BUDGETARY ACCOUNTING (CONTINUED)

Appropriations

Upon receipt from the County Auditor of an amended certificate of estimated resources based on final assessed values and tax rates or a certificate saying no new certificate is necessary, the annual appropriation resolution must be legally enacted by the Board of Education at the fund, function, and object level of expenditures, which are the legal levels of budgetary control. Prior to the passage of the annual appropriation measure, the Board may pass a temporary appropriation measure to meet the ordinary expenses of the School District. The appropriation resolution, by fund, must be within the estimated resources as certified by the County Budget Commission and the total of expenditures and encumbrances may not exceed the appropriation totals at any level of control. Any revisions that alter the total of any fund appropriation, or alter total function appropriations within a fund, or alter object appropriations within functions, must be approved by the Board of Education.

The Board may pass supplemental fund appropriations so long as the total appropriations by fund do not exceed the amounts set forth in the most recent certificate of estimated resources. During the year, several supplemental appropriations were legally enacted; however, none of these amendments were significant.

The budget figures which appear in the statements of budgetary comparisons represent the final appropriation amounts, including all supplemental appropriations. Formal budgetary integration is employed as a management control device during the year for all funds, except for agency funds, consistent with statutory provisions.

Encumbrances

As part of formal budgetary control, purchase orders, contracts, and other commitments for the expenditure of monies are recorded as the equivalent of expenditures on the non-GAAP budgetary basis in order to reserve that portion of the applicable appropriation and to determine and maintain legal compliance. On the GAAP basis, encumbrances outstanding at fiscal year end are reported as a reservation of fund balance for subsequent-year expenditures for governmental funds and reported in the notes to the financial statements for proprietary funds.

Lapsing of Appropriations

At the close of each fiscal year, the unencumbered balance of each appropriation reverts to the respective fund from which it was appropriated and becomes subject to future appropriation. Encumbered appropriations are carried forward to the succeeding fiscal year and are not reappropriated.

EAST CLEVELAND CITY SCHOOL DISTRICT

NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS (CONTINUED)

JUNE 30, 2001

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

E. CASH AND CASH EQUIVALENTS

To improve cash management, cash received by the School District is pooled. Monies for all funds, including proprietary funds, are maintained in this pool. Individual fund integrity is maintained through School District records. Each fund's interest in the pool is presented as "equity in pooled cash and cash equivalents" on the balance sheet.

During fiscal year 2001, investments were limited to Victory Federal Money Market and STAROhio, the State Treasurer's Investment Pool, and federal government agency securities. All investments of the School District had a maturity of two years or less. Investments are reported at fair value which is based on quoted market prices.

The School District has invested funds in the State Treasury Assets Reserve (STAROhio) during fiscal year 2001. STAROhio is an investment pool managed by the State Treasurer's Office which allows governments within the State to pool their funds for investment purposes. STAROhio is not registered with the SEC as an investment company, but does operate in a manner consistent with Rule 2a7 of the Investment Company Act of 1940. Investments in STAROhio are valued at STAROhio's share price which is the price the investment could be sold for on June 30, 2001.

Following Ohio statutes, the Board of Education has, by resolution, specified the funds to receive an allocation of interest. Interest revenue credited to the general fund during fiscal year 2001 amounted to \$537,082, which includes \$209,905 assigned from other School District funds.

For purposes of the combined statement of cash flows and for presentation on the combined balance sheet, 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 considered to be cash equivalents. Investments with an original maturity of more than three months that are not made from the pool are considered to be investments.

F. RESTRICTED ASSETS

Restricted assets in the general fund represent cash and cash equivalents whose use is limited by legal requirements. Restricted assets include unexpended revenues restricted for the creation of a reserve for budget stabilization. See Note 15 for additional information regarding reservations of fund balances.

G. INVENTORY

Inventories of proprietary funds are stated at the lower of cost or market. Cost is determined on a first-in, first-out basis. Inventories of proprietary funds consist of donated food, purchased food, and school supplies held for resale and are expensed when used.

H. PREPAID ITEMS

Payments made to vendors for services that will benefit periods beyond June 30, 2001, are recorded as prepaid items using the consumption method. A current asset for the prepaid amount is recorded at the time of the purchase and an expenditure/expense is reported in the year in which services are consumed.

EAST CLEVELAND CITY SCHOOL DISTRICT

NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS (CONTINUED)

JUNE 30, 2001

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

I. FIXED ASSETS AND DEPRECIATION

General fixed assets are not capitalized in the funds used to acquire or construct them. Instead, capital acquisition and construction costs are reflected as expenditures in governmental funds, and related assets are reported in the general fixed assets account group. Fixed assets utilized in the proprietary funds are capitalized in the respective fund. All fixed assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. The School District maintains a capitalization threshold of \$250. 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 capitalized. Interest incurred during the construction of general fixed assets is also not capitalized.

Assets in the general fixed assets account group are not depreciated. Depreciation of furniture and equipment in the proprietary fund type is computed using the straight-line method over an estimated useful life of five to twenty years. Improvements to fund fixed assets are depreciated over the remaining useful lives of the related fixed assets.

J. INTERGOVERNMENTAL REVENUES

For governmental funds, intergovernmental revenues, such as entitlements and grants are awarded on a non-reimbursement basis, entitlements, and shared revenues are recorded as receivables and revenues when measurable and available. Reimbursement type grants are recorded as receivables and revenues when the related expenditures are incurred. Other than commodities, grants and entitlements for proprietary fund operations are recognized as non-operating revenues in the accounting period in which they are earned and became measurable.

EAST CLEVELAND CITY SCHOOL DISTRICT

NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS (CONTINUED)

JUNE 30, 2001

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

J. INTERGOVERNMENTAL REVENUES (CONTINUED)

The School District currently participates in several State and Federal programs, categorized as follows:

ENTITLEMENTS

General Fund

- State Foundation Program
- State Equity Funding
- State Property Tax Relief
- School Bus Purchase Reimbursement

Special Revenue Fund

- Disadvantaged Pupil Impact Aid

NON-REIMBURSABLE GRANTS

Special Revenue Funds

Auxiliary Service Fund	Title II – Eisenhower
Career Education Development	Title VI-B
Professional Development	Carl Perkins Grant
Ed Management Information System	Title I
Public Preschool Grant	Title I Even Start
Discipline Intervention Grant	Title VI – Gifted
Ohio School Net	Drug Free Grant
Technology Equity	Pre School Handicap Grant
Alternative School Grant	21 st Century Learning Grant
Ohio Reads Classroom Grant	Performance Incentive Grant
School Readiness Resource Grant	School to Work Grant
Parental Involvement Grant	Title VI-R Class Reduction
Adult Basic Education	Parent Mentor Grant

REIMBURSABLE GRANTS

Special Revenue Funds

- National School Lunch Program
- Government Donated Commodities
- School Breakfast Program
- Summer Food Service Program for Children
- CAFS Medicaid Reimbursement
- JTPA Step Program
- Ohio Hunger Task Force – After School

Grants and entitlements amounted to seventy-eight percent of the School District's governmental funds operating revenue during the 2001 fiscal year.

EAST CLEVELAND CITY SCHOOL DISTRICT

NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS (CONTINUED)

JUNE 30, 2001

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

K. INTERFUND ASSETS/LIABILITIES

Short-term interfund loans are classified as “interfund receivables” and “interfund payables.” Long-term interfund loans are classified as “advances to/from other funds” and are equally offset by a fund balance reserve account which indicates that they do not constitute available expendable resources since they are not a component of net current assets.

L. ACCRUED LIABILITIES AND LONG-TERM OBLIGATIONS

In general, governmental fund payables and accrued liabilities are reported as obligations of the funds regardless of whether they will be liquidated with current resources. However, compensated absences, contractually required pension contributions, and special termination benefits that will be paid from governmental funds are reported as a liability in the general long-term obligations account group to the extent that they will not be paid with current available expendable financial resources. Payments made more than sixty days after year end are considered not to have been made with current available financial resources.

Bonds are reported as a liability of the general long-term obligations account group until due.

Long-term debt and other obligations financed by proprietary funds are reported as liabilities in the appropriate proprietary funds.

M. INTERFUND TRANSACTIONS

Quasi-external transactions are accounted for as revenues and expenditures or expenses. Transactions that constitute reimbursements to a fund for expenditures/expenses initially made from it that are properly applicable to another fund are recorded as expenditures/expenses in the reimbursing fund and as reductions of expenditures/expenses in the fund that is reimbursed.

Nonrecurring or non-routine permanent transfers of equity are reported as residual equity transfers. All other interfund transfers are reported as operating transfers.

N. FUND BALANCE RESERVES

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

The reserve for textbooks represents money required to be set-aside by statute to be used for the acquisition of textbooks or other instructional materials. The reserve for budget stabilization represents money required to be set-aside by statute to protect against cyclical changes in revenues and expenditures.

EAST CLEVELAND CITY SCHOOL DISTRICT

NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS (CONTINUED)

JUNE 30, 2001

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

O. TOTAL COLUMNS ON GENERAL PURPOSE FINANCIAL STATEMENTS

Total columns on the general purpose financial statements are captioned "Total - (Memorandum Only)" to indicate that they are presented only to facilitate financial analysis. Data in these columns do not present financial position, results of operations, or cash flows in conformity with accounting principles generally accepted in the United States of America. Neither is such data comparable to a consolidation. Interfund eliminations have not been made in the aggregation of this data.

P. ESTIMATES

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America 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.

NOTE 2 – DEPOSITS AND INVESTMENTS

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

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

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

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

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

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

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

1. United States Treasury Notes, Bills, Bonds, or any other obligation or security issued by the United States Treasury or any other obligation guaranteed as to principal and interest by the United States;

EAST CLEVELAND CITY SCHOOL DISTRICT

NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS (CONTINUED)

JUNE 30, 2001

NOTE 2 – DEPOSITS AND INVESTMENTS (CONTINUED)

2. Bonds, notes, debentures, or any other obligations or securities issued by any federal government agency or instrumentality, including but not limited to, the Federal National Mortgage Association, Federal Home Loan Bank, Federal Farm Credit Bank, Federal Home Loan Mortgage Corporation, Government National Mortgage Association, and Student Loan Marketing Association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;
3. Written repurchase agreements in the securities listed above provided that the market value of the securities subject to the repurchase agreement must exceed the principal value of the agreement by at least two percent and be marked to market daily, and that the term of the agreement must not exceed thirty days;
4. Bonds and other obligations of the State of Ohio;
5. No-load money market mutual funds consisting exclusively of obligations described in division (1) or (2) of this section and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions;
6. The State Treasurer's investment pool (STAROhio);
7. Certain Banker's acceptance and commercial paper notes for a period not to exceed one hundred and eighty days from the purchase date in an amount not to exceed twenty-five percent of the interim moneys available for investment at any one time; and
8. Under limited circumstances, corporate debt interests rated in either of the two highest rating classifications by at least two nationally recognized rating agencies.

Investments in stripped principal or interest obligations, reverse repurchase agreements and derivatives are prohibited. The issuance of taxable notes for the purpose of arbitrage, the use of leverage and short selling are also prohibited. An investment must mature within five years from the date of purchase unless matched to a specific obligation or debt of the School District, and must be purchased with the expectation that it will be held to maturity. Investments may only be made through specified dealers and institutions. Payment for investments may be made only upon delivery of the securities representing the investments to the Treasurer or qualified trustee or, if the securities are not represented by a certificate, upon receipt of confirmation of transfer from the custodian.

The following information classifies deposits and investments by categories of credit risk as defined in GASB No.3, "Deposits with Financial Institutions, Investments (Including Repurchase Agreements) and Reverse Repurchase Agreements."

A. DEPOSITS

At fiscal year-end, the carrying amount of the School District's deposits was \$6,836,924 and the bank balance was \$7,746,585. \$685,535 of the bank balance was covered by federal depository insurance. \$7,061,050 was uninsured and uncollateralized. Although the securities serving as collateral were held by the pledging financial institution's trust department in the School District's name and all State statutory requirements for the deposits of money had been followed, noncompliance with federal requirements would potentially subject the School District to a successful claim by the Federal Deposit Insurance Corporation.

EAST CLEVELAND CITY SCHOOL DISTRICT

NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS (CONTINUED)

JUNE 30, 2001

NOTE 2 – DEPOSITS AND INVESTMENTS (CONTINUED)

B. INVESTMENTS

GASB Statement 3 requires investments to be categorized to give an indication of the level of risk assumed by the School District at year end. Category 1 includes investments that are insured or registered or for which the securities are held by the School District or its agent in the School District's name. Category 2 includes uninsured and unregistered investments for which the securities are held by the counterparty's trust department or agent in the School District's name. Category 3 includes uninsured and unregistered investments for which the securities are held by the counterparty, or by its trust department or agent but not in the School District's name. STAROhio and Victory Federal Money Market are unclassified investments since they are not evidenced by securities that exist in physical or book entry form.

Description	Risk Category 3	Carrying Amount	Fair Value
Repurchase Agreements	X	\$ 256,081	\$ 256,081
Federal Home Loan Mortgage Discount Notes	X	3,036,189	3,036,189
Federal National Mortgage Association Discount Notes	X	3,864,157	3,864,157
Federal Farm Credit Bank Discount Notes	X	648,769	648,769
STAROhio*		2,913,533	2,913,533
Victory Federal Money Market		<u>3,892,986</u>	<u>3,892,986</u>
Total Investments		\$ <u>14,611,715</u>	\$ <u>14,611,715</u>

* Noncategorized

The classification of cash and cash equivalents, and investments on the combined financial statements is based on criteria set forth in GASB Statement No.9. A reconciliation between the classifications of cash and investments on the combined financial statements and the classification per GASB Statement No.3 is as follows:

	Cash and Cash Equivalents/ Deposits	Investments
GASB Statement No. 9	\$ 22,452,132	\$ -
Investments:		
Repurchase Agreements	(256,081)	256,081
Federal Home Loan Mortgage Discount Notes	(3,036,189)	3,036,189
Federal National Mortgage Association Discount Notes	(3,864,157)	3,864,157
Federal Farm Credit Bank Discount Notes	(648,769)	648,769
STAROhio	(2,913,533)	2,913,533
Victory Federal Money Market	<u>(3,892,986)</u>	<u>3,892,986</u>
GASB Statement No. 3	\$ <u>7,840,417</u>	\$ <u>14,611,715</u>

EAST CLEVELAND CITY SCHOOL DISTRICT

NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS (CONTINUED)

JUNE 30, 2001

NOTE 3 - PROPERTY TAXES

Property taxes are levied and assessed on a calendar year basis while the school district 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, public utility and tangible personal property located in the school district. Property tax revenue received during calendar 2001 for real and public utility property taxes represents collections of calendar 2000 taxes. Property tax payments received during calendar 2001 for tangible personal property (other than public utility property) is for calendar 2001 taxes.

2001 real property taxes are levied after April 1, 2001, on the assessed value as of January 1, 2001, the lien date. Assessed values are established by State law at thirty-five percent of appraised market value.

Public utility tangible personal property currently is assessed at varying percentages of true value; public utility real property is assessed at thirty-five percent of true value. 2001 public utility property taxes became a lien December 31, 2001, are levied after April 1, 2001 and are collected in 2002 with real property taxes.

2001 tangible personal property taxes are levied after April 1, 2001, on the value as of December 31, 2001. Collections are made in 2001. Tangible personal property assessments are twenty-five percent of true value.

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

Agricultural/Residential and Other Real Estate	\$ 209,397,770
Public Utility Personal	18,402,320
Tangible Personal Property	<u>13,526,131</u>
Total	\$ <u>241,326,221</u>
Tax rate per \$1,000 of assessed valuation	\$ 92.40

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

Tangible personal property taxes paid by multi-county taxpayers are due September 20. Single county taxpayers may pay annually or semi-annually. If paid annually, payment is due April 30; if paid semi-annually, the first payment is due April 30, with the remainder payable by September 20. This year, the June 2001 tangible personal property tax settlement was not received until July 2001.

The School District receives property taxes from Cuyahoga County. The County Auditor periodically advances to the School District its portion of the taxes Collected. Second-half real property tax payments collected by the County by June 30, 2001, are available for advance. The amount available to be advanced can vary based on the date the tax bills are sent.

EAST CLEVELAND CITY SCHOOL DISTRICT

NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS (CONTINUED)

JUNE 30, 2001

NOTE 3 - PROPERTY TAXES (CONTINUED)

Accrued property taxes receivable represent delinquent taxes outstanding, the late settlement of personal property taxes and real property, personal property and public utility taxes which became measurable as of June 30, 2001. Although total property tax collections for the next fiscal year are measurable, they are not intended to finance current fiscal year operations. The receivable is therefore offset by a credit to deferred revenue. The amount available as an advance at June 30, 2001 was \$1,257,385. \$1,163,341 was available to the General Fund, \$82,347 was available to the Debt Service Fund and \$11,697 was available to the Capital Projects Fund.

NOTE 4 - OPERATING TRANSFERS

Following is a summary of operating transfers for all funds for June 30, 2001:

<u>Fund</u>	<u>Transfers-In</u>	<u>Transfers-Out</u>
General	\$ 2,135,193	\$ 265,107
Special Revenue	162,480	2,187,193
Enterprise	152,000	-
Agency	<u>2,627</u>	<u>-</u>
Total All Funds	\$ <u>2,452,300</u>	\$ <u>2,452,300</u>

NOTE 5 - FIXED ASSETS

A. GENERAL FIXED ASSETS

Changes in general fixed assets during fiscal year 2001 were as follows:

	<u>Balance at July 1, 2000</u>	<u>Additions</u>	<u>Disposals</u>	<u>Balance at June 30, 2001</u>
Land and Land Improvements	\$ 905,176	\$ -	\$ -	\$ 905,176
Buildings and Building Improvements	20,280,221	6,339,996	-	26,620,217
Furniture, Fixtures and Equipment	9,772,659	264,746	-	10,037,405
Construction in Progress	2,169,956	8,203,722	(4,861,130)	5,512,548
Vehicles	<u>680,163</u>	<u>-</u>	<u>-</u>	<u>680,163</u>
Total	\$ <u>33,808,175</u>	\$ <u>14,808,464</u>	\$ <u>(4,861,130)</u>	\$ <u>43,755,509</u>

EAST CLEVELAND CITY SCHOOL DISTRICT

NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS (CONTINUED)

JUNE 30, 2001

NOTE 5 - FIXED ASSETS (CONTINUED)

B. ENTERPRISE FUND FIXED ASSETS

All Enterprise Fund fixed assets relate to the Adult Education Fund. The balance as of June 30, 2001 was as follows:

Furniture, Fixtures and Equipment	\$ 5,120
Less: Accumulated Depreciation	<u>(4,740)</u>
Fixed Assets Net of Accumulated Depreciation	\$ <u><u>380</u></u>

NOTE 6 – LONG-TERM OBLIGATIONS

The changes in the long-term obligations of the School District for the year ended June 30, 2001 are as follows:

	<u>Balance</u> <u>6/30/00</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance</u> <u>6/30/01</u>
<u>General Obligation Bonds</u>				
Classroom Facilities Bonds				
2000 Issue 5.017% due 12/1/2020	\$ <u>10,200,000</u>	\$ <u>-</u>	\$ <u>370,000</u>	\$ <u>9,830,000</u>
<u>Other Long-Term Obligations</u>				
Pension Obligation	\$ 409,502	\$ 458,015	\$ 409,502	\$ 458,015
Compensated Absences	<u>6,791,534</u>	<u>186,608</u>	<u>-</u>	<u>6,978,142</u>
Total	<u>7,201,036</u>	<u>644,623</u>	<u>409,502</u>	<u>7,436,157</u>
Total Long-term Obligations	\$ <u>17,401,036</u>	\$ <u>644,623</u>	\$ <u>779,502</u>	\$ <u>17,266,157</u>

The general obligation bond is paid from the Debt Service Fund. The primary source of repayment for the bond is operating revenues and property taxes. The pension obligation and compensated absences will be paid from the fund from which the employee is paid.

For fiscal year 2000, the District changed the calculation of Long-Term Sick Leave to include a vesting schedule, based on the employee's years of service. The District assumed that employees with 10 years of experience had a 50 percent chance of becoming eligible to retire. In addition, employees with over 15 years of experience had a 100 percent chance of becoming eligible to retire.

EAST CLEVELAND CITY SCHOOL DISTRICT

NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS (CONTINUED)

JUNE 30, 2001

NOTE 6 – LONG-TERM OBLIGATIONS (CONTINUED)

Principal and interest requirements to retire the long-term debt obligation outstanding at June 30, 2001 were as follows:

<u>Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2002	\$ 380,000	\$ 412,018	\$ 792,018
2003	395,000	398,258	793,258
2004	410,000	383,563	793,563
2005	425,000	367,903	792,903
2006	440,000	351,248	791,248
2007-2011	1,885,853	2,085,449	3,971,302
2012-2016	2,434,147	1,511,728	3,945,875
2017-2021	<u>3,460,000</u>	<u>449,250</u>	<u>3,909,250</u>
Totals	\$ <u>9,830,000</u>	\$ <u>5,959,417</u>	\$ <u>15,789,417</u>

NOTE 7 - COMPENSATED ABSENCES

The School District reports compensated absences in accordance with the provisions of GASB Statement No. 16, "Accounting for Compensated Absences." During fiscal year 2000, the District changed the methodology of calculating compensated absences from the termination to the vesting method.

The criteria for determining vacation and sick leave benefits are derived from negotiated agreements and State laws. Administrative and classified employees earn up to a maximum of four weeks of vacation per year, depending upon length of service. Vacation time is credited on the anniversary of the employee's hire date, however, it must be used within that one year period and does not accumulate. Accumulated unused vacation time is paid to administrators and classified employees upon retirement. They are not paid upon resignation or termination. Teachers do not earn vacation time. Teachers, administrators, and classified employees earn sick leave at the rate of one and one-fourth days per month. Upon retirement, employees receive payment for one-fourth of the total sick leave accumulation, up to a maximum accumulation of 250 days for certified employees and 260 days for classified employees.

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 School District 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.

Sick leave benefits are accrued as a liability for employees who are currently eligible to receive termination benefits and those the School District has identified as probable of receiving payment in the future. The amount is based on accumulated sick leave and employees' wage rates at fiscal year end, taking into consideration any limits specified in the School District's termination policy. The School District records a liability for accumulated unused sick leave for classified, certified, and administrative employees after ten years of current service with the School District.

EAST CLEVELAND CITY SCHOOL DISTRICT

NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS (CONTINUED)

JUNE 30, 2001

NOTE 7 - COMPENSATED ABSENCES (CONTINUED)

For governmental funds, the current portion of unpaid compensated absences is the amount expected to be paid using available expendable resources. These amount are recorded in the account "Accrued Compensated Absences" in the fund from which the employees who have accumulated unpaid leave are paid. The remainder is reported in the general long-term obligations account group. In proprietary funds, the entire amount of compensated absences is reported as a fund liability.

NOTE 8 - SEGMENT INFORMATION FOR ENTERPRISE FUNDS

The District maintains Enterprise Funds in which the operations are accounted for, financed and recorded in a manner similar to that of private enterprises whereby it is the District's intent that the costs of providing these goods or services be financed primarily through user charges.

Segment information for the Enterprise Funds is summarized as follows:

For the Year Ended <u>June 30, 2001:</u>	Uniform School Supply Fund	Special Rotary Fund	Adult Education Fund	Total
Operating Revenues	\$ 32,208	\$ -	\$ 22,746	\$ 54,954
Depreciation Expense	-	-	498	498
Operating Loss	(170,730)	-	(100,243)	(270,973)
Operating Grants	-	-	180	180
Operating Transfers - In	52,000	-	100,000	152,000
Net Income (Loss)	(118,730)	-	(63)	(118,793)
<u>As of June 30, 2001:</u>				
Cash Used For Operating Activities	(170,730)	-	(92,317)	(263,047)
Net Working Capital	16,935	1,628	9,087	27,650
Total Assets	16,935	1,628	25,183	43,746
Total Equity	16,935	1,628	9,467	28,030
Encumbrances at June 30, 2001	3,945	-	13,684	17,629

NOTE 9 - RETIREMENT PLANS

A. SCHOOL EMPLOYEES RETIREMENT SYSTEM

The East Cleveland City School District contributes to the School Employee Retirement System (SERS), a cost-sharing multiple-employer defined benefit pension plan. SERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Authority to establish and amend benefits is provided by State statute per Chapter 3309 of the Ohio Revised Code. SERS issues a publicly available, stand-alone financial report that includes financial statements and required supplementary information. That report may be obtained by writing to SERS, 45 North Fourth Street, Columbus, Ohio 43215 or by calling (614) 222-5853.

EAST CLEVELAND CITY SCHOOL DISTRICT

NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS (CONTINUED)

JUNE 30, 2001

NOTE 9 - RETIREMENT PLANS (CONTINUED)

A. SCHOOL EMPLOYEES RETIREMENT SYSTEM (CONTINUED)

Plan members are required to contribute nine percent of their annual covered salary and the School District is required to contribute at an actuarially determined rate. The current rate is 14 percent of annual covered payroll; 5.5 percent was the portion used to fund pension obligations for fiscal year 2001 and 2000. The contribution requirements of plan members and employers are established and may be amended, up to statutory maximum amounts, by the SERS' Retirement Board. The School District's contributions to SERS for the fiscal years ended June 30, 2001, 2000, and 1999 were \$450,507, \$540,530, and \$504,349, respectively, equal to the required contributions for each year.

B. STATE TEACHERS RETIREMENT SYSTEM

The East Cleveland City School District contributes to the State Teachers Retirement System of Ohio (STRS Ohio), a cost-sharing multiple employer public employee retirement system. Benefits are established by Chapter 3307 of the Ohio Revised Code. STRS Ohio issues a stand-alone financial report. The report may be obtained by writing to STRS Ohio, 275 East Broad Street, Columbus, Ohio 43215 or by calling (614) 227-4090.

STRS Ohio is a statewide retirement plan for certified teachers and other faculty members employed in the public schools of Ohio or any school, college, university, institution or other agency wholly controlled, managed and support in whole, or in part, by the state or any political subdivision thereof. Any member who has (i) five years of service credit and attained age 60; (ii) 25 years of service credit and attached age 55; or (iii) 30 years of service credit regardless of age may retire. The maximum annual retirement allowance, payable for life, is the greater of the "formula benefit" or the "money-purchase benefit" calculation. Under the "formula benefit," the retirement allowance is based on years of credited service and final average salary, which is the average of the member's three highest years' salaries. The annual allowance is calculated by using a base percentage of 2.1 percent multiplied by the total number of years of service credit (including Ohio-valued purchase credit) times the final average salary. The 31st year of earned Ohio service credit is calculated at 2.5 percent. An additional one-tenth of a percent is added to the calculation for every year of earned Ohio service over 31 years (2.6 percent for 32 years, 2.7 percent for 33 years and so on) until 100 percent of final average salary is reached.

Legislation passed in April 2000 with a July 1999 effective date provided an adjustment for retirees whose benefits have not kept pace with the rate of inflation. The legislation also changed the formula for calculating the formula benefit. The formula benefit increased to 2.2 percent from 2.1 percent per year for all years up to 30 years. For members with 35 or more years of earned Ohio service, the first 30 years will be calculated at 2.5 percent instead of 2.2 percent. For earned Ohio service over 30 years, the formula will remain as current law, which provides an escalating formula of 2.5 percent for the 31st year, 2.6 percent for the 32nd year, 2.7 percent for the 33rd year, etc., until 100 percent of final average salary is reached.

Under the "money-purchase benefit" calculation, a member's lifetime contributions plus interest at specified rates are matched by an equal amount from other STRS Ohio funds. This total is then divided by an actuarially determined annuity factor to determine the maximum annual retirement allowance.

EAST CLEVELAND CITY SCHOOL DISTRICT

NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS (CONTINUED)

JUNE 30, 2001

NOTE 9 - RETIREMENT PLANS (CONTINUED)

B. STATE TEACHERS RETIREMENT SYSTEM (CONTINUED)

A retiree of STRS Ohio or other Ohio public retirement system is eligible for reemployment as a teacher following the elapse of two months from the date of retirement. Contributions are made by the reemployed member and employer during the reemployment. Upon termination of reemployment or age 65, whichever comes later, the retiree is eligible for a money-purchase benefit or a lump-sum payment in addition to the original retirement allowance.

Retirement benefits are annually increased by the greater of the amount of the change in the Consumer Price Index (CPI) or the cumulative CPI increases since retirement, less previous cost-of-living increases, up to a maximum of 3% of the original base benefit. The plan offers comprehensive health care benefits to retirees and their dependents. Coverage includes hospitalization, physicians' fees, prescription drugs and partial reimbursement of monthly Medicare premiums.

A member with five or more years' credited service who becomes disabled is entitled to a disability benefit. Survivor benefits are available to eligible spouses and dependents of active members who die before retirement. A death benefit of \$1,000 is payable to the beneficiary of each deceased retired member. Additional death benefit coverage of \$1,000 or \$2,000 can be purchased. Various other benefits are available to members' beneficiaries.

Chapter 3307 of the Revised Code provides statutory authority for member and employer contributions. Contribution rates are established by the State Teachers Retirement Board, upon recommendations of its consulting actuary, not to exceed statutory maximum rates of 10 percent for members and 14 percent for employers. For fiscal year ended June 30, 2001, Plan members are required to contribute 9.3 percent of their annual covered salary and the East Cleveland City School District is required to contribute 14 percent; 6.0 percent was the portion used to fund pension obligations for fiscal years 2001 and 2000. The School District's required contributions for pension obligations to STRS Ohio for the fiscal years ended June 30, 2001, 2000, and 1999 were \$1,744,632, \$1,494,991, and \$1,543,258, respectively; 100 percent has been contributed for fiscal years 2001, 2000, and 1999.

NOTE 10 - POSTEMPLOYMENT BENEFITS

A. STATE EMPLOYEES RETIREMENT SYSTEM

The Ohio Revised Code gives SERS the discretionary authority to provide postretirement health care to retirees and their dependents. Coverage is made available to service retirees with ten or more years of qualifying service credit, disability and survivor benefit recipients. Members retiring on or after August 1, 1989 with less than twenty five years of service credit must pay a portion of their premium for health care. The portion is based on years of service up to a maximum of 75 percent of the premium.

EAST CLEVELAND CITY SCHOOL DISTRICT

NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS (CONTINUED)

JUNE 30, 2001

NOTE 10 - POSTEMPLOYMENT BENEFITS (CONTINUED)

A. STATE EMPLOYEES RETIREMENT SYSTEM (CONTINUED)

After the allocation for basic benefits, the remainder of the employer's 14 percent contribution is allocated to providing health care benefits. In addition, SERS levies a surcharge to fund health care benefits equal to 14 percent of the difference between a minimum pay and the member's pay, pro-rated for partial service credit. For fiscal 2000, the minimum pay has been established as \$12,400. The surcharge, added to the unallocated portion of the 14 percent employer contribution rate, provides for maintenance of the asset target level for the health care fund.

Health care benefits are financed on a pay-as-you-go-basis. The target level for the health care reserve is 150 percent of annual health care expenses. Expenses for health care at June 30, 2000 were \$140,696,340 and the target level was \$211.0 million. At June 30, 2000, the Retirement System's net assets available for payment of health care benefits was \$252.3 million. The number of benefit recipients currently receiving health care benefits is approximately 50,000. For the year ended June 30, 2001, the District contributed \$696,239 to fund post-employment benefits, including the surcharge.

B. STATE TEACHERS RETIREMENT SYSTEM

The State Teachers Retirement System of Ohio (STRS Ohio) provides comprehensive health care benefits to retirees and their dependents. Coverage includes hospitalization, physicians' fees, prescription drugs and partial reimbursement of monthly Medicare premiums. All benefit recipients and sponsored dependents are eligible for health care coverage. Pursuant to the Revised Code (RC), the State Teachers Retirement Board (the board) has discretionary authority over how much, if any, of the health care costs will be absorbed by STRS Ohio. Most benefit recipients pay a portion of the health care cost in the form of a monthly premium.

The RC grants authority to STRS Ohio to provide health care coverage to benefit recipients, spouses and dependents. By Ohio law, the cost of the coverage paid from STRS Ohio funds shall be included in the employer contribution rate, currently 14 percent of covered payroll. The board currently allocates employer contributions equal to two percent of covered payroll to the Health Care Reserve Fund from which payments for health care benefits are paid. However, for the fiscal years ended June 30, 2001 and 2000, the board allocated employer contributions equal to 8 percent of covered payroll to the Health Care Reserve Fund. For the School District, this amount equaled \$2,326,177 for fiscal year 2001. The balance in the Health Care Reserve Fund was \$3.419 billion at June 30, 2000. The Health Care Reserve Fund allocation for the year ended June 30, 2001, and after, will be 4.5 percent of covered payroll. For the year ended June 30, 2000, the net health care costs paid by STRS Ohio were \$283,137,000. There were 99,011 eligible benefit recipients.

EAST CLEVELAND CITY SCHOOL DISTRICT

NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS (CONTINUED)

JUNE 30, 2001

NOTE 11 - HEALTH CARE BENEFITS

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

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

NOTE 12 - RISK MANAGEMENT

A. PROPERTY AND LIABILITY

The School District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees and natural disasters. During fiscal year 2001, the School District contracted with Nationwide for property insurance of \$85,946,200, fleet insurance of \$1,000,000, and liability coverage of \$5,000,000 with a \$5,000 deductible.

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

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

B. WORKER'S COMPENSATION

The School District participates in the Ohio School Boards Association Workers' Compensation Group Rating Plan (GRP), an insurance purchasing pool (Note 19). 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. Total savings are then calculated and each participant's individual performances is compared to the overall savings percent of the GRP. A participant will then either receive money from or be required to contribute to the "Equity Pooling Fund." This "equity pooling fund" arrangement insures that each participant shares equally in the overall performance of the GRP. Participation in the GRP is limited to school districts that can meet the GRP's selection criteria. The school districts apply for participation each year.

Each year, the School District pays an enrollment fee to the GRP to cover costs of administering the program.

EAST CLEVELAND CITY SCHOOL DISTRICT

NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS (CONTINUED)

JUNE 30, 2001

NOTE 13 - BUDGETARY BASIS OF ACCOUNTING

While reporting financial position, results of operations and changes in fund balance/retained earnings on the basis of accounting principles generally accepted in the United States of America (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 Combined Statement of Revenues, Expenditures and Changes in Fund Balances - Budget (Non-GAAP Budgetary Basis) and Actual - All Governmental Fund Types and Expendable Trust Funds and the Combined Statement of Revenues, Expenses and Changes in Fund Equity – Budget (Non-GAAP Budgetary Basis) and Actual – All Proprietary Fund Types are presented on the budgetary basis to provide a meaningful comparison of actual results with the budget. The major differences between the budget basis and the GAAP basis are identified as follows:

- (a) Revenues are recorded when received in cash (budget basis) as opposed to when susceptible to accrual (GAAP basis);
- (b) Expenditures/Expenses are recorded when paid in cash or encumbered (budget basis) as opposed to when the liability is incurred (GAAP basis);
- (c) In order to determine compliance with Ohio law, and to reserve that portion of the applicable appropriation, encumbrances are recorded as the equivalent of an expenditure (budget basis) as opposed to a reservation of fund balance for governmental funds.
- (d) For proprietary funds, the acquisition and construction of capital assets are reported on the operating statement (budget basis) rather than as balance sheet transactions (GAAP basis).

EAST CLEVELAND CITY SCHOOL DISTRICT

NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS (CONTINUED)

JUNE 30, 2001

NOTE 13 - BUDGETARY BASIS OF ACCOUNTING (CONTINUED)

The adjustments necessary to convert the results of operations for the year on the GAAP basis to the budget basis for the governmental funds are as follows:

Excess of Revenues and Other Financing Sources Over (Under) Expenditures and Other Financing Uses - All Governmental Fund Types					
<u>Projects</u>	<u>General</u>	<u>Special Revenue</u>	<u>Debt Service</u>	<u>Capital Projects</u>	<u>Expendable Trust</u>
GAAP Basis	\$ (7,570,787)	\$ (712,835)	\$ (56,134)	\$ (8,720,578)	\$ (22,668)
<u>Increase (Decrease) Due to</u>					
Revenue accruals	898,922	(228,163)	70,433	(56,586)	-
Advance in	460,000	582,914	-	-	-
Expenditure accruals	2,285,531	1,293,978	-	412,707	1,220
Advance out	(582,914)	(460,000)	-	-	-
Encumbrances	<u>(820,016)</u>	<u>(620,619)</u>	<u>-</u>	<u>(172,462)</u>	<u>(2,242)</u>
Budget Basis	\$ <u>(5,329,264)</u>	\$ <u>(144,725)</u>	\$ <u>14,299</u>	\$ <u>(8,536,919)</u>	\$ <u>(23,690)</u>

EAST CLEVELAND CITY SCHOOL DISTRICT

NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS (CONTINUED)

JUNE 30, 2001

NOTE 13 - BUDGETARY BASIS OF ACCOUNTING (CONTINUED)

	Net Income/Excess of Revenues and Operating Transfers Over Expenses <u>Proprietary Fund Type</u>
	<u>Enterprise</u>
GAAP Basis	\$ (118,793)
Net adjustments for expense accruals	7,926
Encumbrances	<u>(17,629)</u>
Budget Basis	<u>\$ (128,496)</u>

NOTE 14 - SCHOOL FOUNDATION PROGRAM

On September 6, 2001, the Ohio Supreme Court issued its latest opinion regarding the State's school funding plan. The decision identified aspects of the current plan that require modification if the plan is to be considered constitutional, including:

- A change in the school districts that are used as the basis for determining the base cost support amount. Any change in the amount of funds distributed to school districts as a result of this change must be retroactive to July 1, 2001, although a time line for distribution is not specified.
- Fully funding parity aid no later than the beginning of fiscal year 2004 rather than fiscal year 2006.

The Supreme Court relinquished jurisdiction over the case based on anticipated compliance with its order.

In general, it is expected that the decision would result in an increase in State funding for most Ohio School districts. However, as of the date of this report, the Ohio General Assembly is still analyzing the impact this Supreme Court decision will have on funding for individual school districts. Further, the State of Ohio, in a motion filed September 17, 2001, asked the Court to reconsider and clarify the parts of the decision changing the school districts that are used as the basis for determining the base cost support amount and the requirement that changes be made retroactive to July 1, 2001.

On November 2, 2001, the Court granted this motion for reconsideration. The Court may re-examine and redetermine any issue upon such reconsideration.

As of the date of these financial statements, the School District is unable to determine what effect, if any, this decision and the reconsideration will have on its future State funding and on its financial operations.

EAST CLEVELAND CITY SCHOOL DISTRICT

NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS (CONTINUED)

JUNE 30, 2001

NOTE 15 - RESERVATIONS OF FUND BALANCE

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

The following cash basis information identifies the changes in fund balance reserves for textbooks and instructional materials, capital improvements, and budget stabilization during fiscal year 2001. Disclosure of this information is required by State Statute.

	<u>Textbooks</u>	<u>Capital Improvements</u>	<u>Budget Stabilization</u>	<u>Total</u>
Balance June 30, 2000	\$ 222,797	\$ (10,193,292)	\$ 750,982	\$ (9,219,513)
Current Year Set Aside Requirement	938,898	938,898	-	1,877,796
Workers' Compensation Refund received prior to 4/10/01	-	-	113,027	113,027
Offset Credits	-	(99,347)	-	(99,347)
Qualifying Expenditures	<u>(775,775)</u>	<u>(294,934)</u>	<u>-</u>	<u>(1,070,709)</u>
Balance June 30, 2001	\$ <u>385,920</u>	\$ <u>(9,648,675)</u>	\$ <u>864,009</u>	\$ <u>(8,398,746)</u>
Set-Aside Balance Carried Forward to Future Fiscal Years	\$ <u>385,920</u>	\$ <u>(9,648,675)</u>	\$ <u>864,009</u>	\$ <u>(8,398,746)</u>
Set-Aside Reserve Balances as of June 30, 2001	\$ <u>385,920</u>	\$ <u>-</u>	\$ <u>864,009</u>	\$ <u>1,249,929</u>

In the prior year, the School District had qualifying disbursements that reduced the capital improvements set-aside amounts below zero. The extra amount is used to reduce the current and future set-aside requirements. The total reserve balance for the three set-asides at the end of the fiscal year was \$1,249,929.

EAST CLEVELAND CITY SCHOOL DISTRICT

NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS (CONTINUED)

JUNE 30, 2001

NOTE 16 - CONTINGENCIES/PENDING LITIGATION

A. GRANTS

The School District received financial assistance from federal and state agencies in the form of grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and 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, 2001.

B. LITIGATION

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

NOTE 17 – INTERFUND TRANSACTIONS

Interfund balances at June 30, 2001 were as follows:

<u>Fund Type/Fund</u>	<u>Receivable</u>	<u>Payable</u>
General Fund	\$ 867,386	\$ -
Special Revenue Funds:		
Food Services	-	25,000
Other Grant	-	173,587
District Managed Student Activity	-	113,500
Career Development	-	22,627
Adult Basic Education	-	87,011
JTPA	-	35,602
Eisenhower	-	55,297
Parent Mentor Program	-	220,042
Disadvantaged Vocational	-	25,000
Title I	-	100,000
Drug Free Grant	-	13,657
PreSchool Handicap	-	9,668
Project East Goals 2000	<u>18,605</u>	<u>-</u>
Total Special Revenue	18,605	880,991
Enterprise Fund:		
Adult Education	<u>-</u>	<u>5,000</u>
Total All Funds	\$ <u>885,991</u>	\$ <u>885,991</u>

EAST CLEVELAND CITY SCHOOL DISTRICT

NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS (CONTINUED)

JUNE 30, 2001

NOTE 18 – RELATED ORGANIZATION

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

NOTE 19 – PUBLIC ENTITY RISK POOL

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

NOTE 20 – JOINTLY GOVERNED ORGANIZATION

The Ohio Schools Council Association (Council) is a jointly governed organization among eighty-three school districts. The jointly governed organization was formed to purchase quality products and services at the lowest possible cost to the member districts. Each district supports the Council by paying an annual participation fee. The Council's Board consists of seven superintendents of the participating districts whose term rotates every year. The degree of control exercised by any school district is limited to its representation on the Board. In fiscal year 2001, the School District paid \$367,733 to the Council. Financial information can be obtained by contacting Albert G. Vasek, the Executive Secretary of the Ohio Schools Council at 155 Center Road, Bedford, Ohio, 44146.

The School District participates in the Council's electric purchase program which was implemented during fiscal year 2001. The electric purchase program allows school districts to purchase electricity at reduced rates, if the school districts will commit to participating for an eight year period. The participants make monthly payments based on estimated usage. Each June these estimated payments are compared to their actual usage for the year and any necessary adjustments are made.

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

EAST CLEVELAND CITY SCHOOL DISTRICT

NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS (CONTINUED)

JUNE 30, 2001

NOTE 21 – FUND EQUITY DEFICITS

At June 30, 2001, the following fund had a deficit fund balance:

General Fund	\$ (5,213,672)
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The deficit was caused by the application of accounting principles generally accepted in the United States of America to this Fund.

NOTE 22 – COMPLIANCE

Per ORC Section 5705.39, the total appropriation from each fund should not exceed the total estimated revenue. As of June 30, 2001, the following funds had appropriations in excess of estimated revenues:

<u>Fund</u>	<u>Estimated Revenues</u>	<u>Total Appropriations</u>	<u>Excess</u>
Miscellaneous Grants	\$ 519,969	\$ 534,969	\$ (15,000)
Title VI	56,608	134,639	(78,031)

EAST CLEVELAND CITY SCHOOL DISTRICT

NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS (CONTINUED)

JUNE 30, 2001

NOTE 22 –COMPLIANCE (CONTINUED)

Per ORC Section 5705.41(B), no subdivision or taxing unit is to expend money unless it has been appropriated. As of March 31, 2001 and June 30, 2001, the following funds had expenditures plus encumbrances in excess of appropriations:

<u>Fund</u>	<u>Total</u> <u>Appropriations</u>	<u>Total</u> <u>Expenditures</u> <u>Plus</u> <u>Encumbrances</u>	<u>Excess</u>
<u>As of March 31, 2001:</u>			
Food Service	\$ 1,010,717	\$ 2,366,101	\$ (1,355,384)
Public Schools	17,574	23,716	(6,142)
Other Local Grants	46,615	428,904	(382,289)
District Managed Funds	70,799	260,705	(189,906)
Auxiliary Service	43,647	118,449	(74,802)
Career Development	2,580	62,284	(59,704)
Teacher Development	35,426	51,747	(16,321)
Preschool Grant	65,030	204,155	(139,125)
DPIA	296,982	2,535,554	(2,238,572)
Technical World	-	17,439	(17,439)
Alternative School Grant	100,000	306,348	(206,348)
Miscellaneous Grants	153,758	334,457	(180,699)
Adult Basic Education	18,151	146,693	(128,542)
JTPA Step	52,320	98,216	(45,896)
Eisenhower	26,249	64,773	(38,524)
Title VI-B	33,943	287,806	(253,863)
Carl Perkins	49,269	193,196	(143,927)
Title I	740,337	2,662,447	(1,922,110)
Title VI	47,115	71,450	(24,335)
Drug Free	23,979	91,019	(67,040)
Preschool Grant	5	59,849	(59,844)
Other Federal Grants	117,387	715,680	(598,293)
Bond Retirement	500,000	585,439	(85,439)
Classroom Facilities	40,000	20,018,764	(19,978,764)
School Net Plus	30,000	327,145	(297,145)
Technical Equity	14,394	42,291	(27,897)
Adult Education	87,929	103,076	(15,147)
Special Grants	5,000	16,140	(11,140)
Student Activities	29,800	46,590	(16,790)

EAST CLEVELAND CITY SCHOOL DISTRICT

NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS (CONTINUED)

JUNE 30, 2001

NOTE 22 –COMPLIANCE (CONTINUED)

<u>Fund</u>	<u>Total Appropriations</u>	<u>Total Expenditures Plus Encumbrances</u>	<u>Excess</u>
<u>As of June 30, 2001:</u>			
Auxiliary Services	105,187	131,661	(26,474)
Preschool Grant	302,599	389,329	(86,730)
Adult Basic Education	151,411	232,798	(81,387)
JTPA	57,965	82,965	(25,000)
Drug Free	45,080	99,974	(54,894)
EHA Preschool Grant	12,760	31,454	(18,694)
Other Federal Grants	942,307	1,029,620	(87,313)

NOTE 23 –CHANGES IN ACCOUNTING PRINCIPLES

For fiscal year 2001, the District has implemented GASB Statement No. 33, *Accounting and Financial Reporting for Nonexchange Transactions*. At June 30, 2001 there was no effect on fund balances as a result of implementing GASB 33.

**EAST CLEVELAND CITY SCHOOL DISTRICT
CUYAHOGA COUNTY**

**SCHEDULE OF FEDERAL AWARDS EXPENDITURES
FOR THE FISCAL YEAR ENDED JUNE 30, 2001**

FEDERAL GRANTOR / PASS-THROUGH GRANTOR PROGRAM TITLE	FEDERAL CFDA NUMBER	PASS THROUGH ENTITY NUMBERS	RECEIPTS	NON-CASH RECEIPTS	DISBURSEMENTS	NON-CASH DISBURSEMENTS
U.S. DEPARTMENT OF EDUCATION						
<i>Pass-Through Ohio Department of Education:</i>						
Adult Basic and Literacy Education	84.002	AB-S1 99	\$0	\$0	\$26,142	\$0
		AB-S1 00	0	0	52,778	0
Subtotal CFDA #84.002			0	0	78,920	0
Title 1 Education Consolidation Improvement Act	84.010	C1-S1 1999	0	0	4,564	0
		C1-S1 2000C	0	0	627,780	0
		C2-S1 2000	194,092	0	1,125,809	0
		C1-S1 2001	2,342,511	0	1,550,765	0
Subtotal CFDA #84.010			2,536,603	0	3,308,918	0
Special Education Cluster: Education Handicapped Act - 6B	84.027	6B-PM 1998 P	0	0	15,472	0
		6B-PM 1999 P	25,000	0	18,321	0
		6B-PM 2000 P	25,000	0	25,000	0
		6B-SF 2000 P	31,899	0	83,703	0
		6B-SF 2001 P	98,271	0	290,187	0
Subtotal CFDA #84.027			180,170	0	432,683	0
Education Handicapped - Preschool 6B	84.173	PG-S1 2000 P	7,819	0	17,487	0
		PG-SC 1999 P	4,022	0	10,759	0
		PG-SC 2000 P	13,044	0	22,748	0
Subtotal CFDA #84.173			24,885	0	50,994	0
Total Special Education Cluster			205,055	0	483,677	0
Vocational Education - Basic Grant	84.048	20-C1 2000	30,993	0	92,493	0
		20-C1 2001	161,669	0	132,887	0
Subtotal CFDA #84.048			192,662	0	225,380	0
Drug Free Schools and Communities	84.186	DR-S1 1999	0	0	22,844	0
		DR-S1 2000	57,533	0	28,054	0
		DR-S1 2001	18,256	0	24,315	0
Subtotal CFDA #84.186			75,789	0	75,213	0
Goals 2000	84.276	G2-S1 2001	42,975	0	2,119	0
		G2-S2 2000	45,000	0	17,381	0
		G2-S2 2001	52,100	0	42,755	0
Subtotal CFDA #84.276			140,075	0	62,255	0
Eisenhower Professional Development State Grant	84.281	MS-S1 1998	0	0	363	0
		MS-S1 1999	0	0	2,102	0
		MS-S1 2000 C	0	0	36,852	0
		MS-S1 2000	0	0	18,456	0
		MS-S1 2001	22,197	0	39,251	0
Subtotal CFDA #84.281			22,197	0	97,024	0
<i>Direct Assistance:</i>						
21st Century Community Learning Center	84.287	S287B000254	329,720	0	352,813	0
Even Start Family Literacy	84.213	EV-S1 2000	127,768	0	131,905	0
		EV-S1 2001	48,674	0	19,763	0
Subtotal CFDA #84.213			176,442	0	151,668	0
Class Size Reduction Subsidy	84.340	CR-S1 2000	221,088	0	256,527	0
		CR-S1 2001	309,971	0	229,909	0
Subtotal CFDA #84.340			531,059	0	486,436	0
Innovative Education Program Strategy	84.298	C2-S1 1998	0	0	51,861	0
		C2-S1 2000 C	0	0	15,073	0
		C2-S1 2000	0	0	28,054	0
		C2-S1 2001	78,031	0	37,886	0
Subtotal CFDA #84.298			78,031	0	132,874	0
Title 1 Accountability	84.348	AK-S1 2001	352,734	0	306,986	0
TOTAL U.S. DEPARTMENT OF EDUCATION			4,640,367	0	5,762,164	0

The accompanying notes are an integral part of the financial statements.

**EAST CLEVELAND CITY SCHOOL DISTRICT
CUYAHOGA COUNTY**

**SCHEDULE OF FEDERAL AWARDS EXPENDITURES
FOR THE FISCAL YEAR ENDED JUNE 30, 2001**

FEDERAL GRANTOR / PASS-THROUGH GRANTOR PROGRAM TITLE	FEDERAL CFDA NUMBER	PASS THROUGH ENTITY NUMBERS	RECEIPTS	NON-CASH RECEIPTS	DISBURSEMENTS	NON-CASH DISBURSEMENTS
U. S. DEPARTMENT OF HEALTH AND HUMAN SERVICES						
<i>Passed Through the Ohio Department of Mental Retardation & Developmental Disabilities</i>						
Title XIX - Medical Assistance Program (CAFS)	93.778		\$409,732	\$0	\$409,732	\$0
U.S. DEPARTMENT OF AGRICULTURE						
<i>Pass-Through Ohio Department of Education:</i>						
Nutrition Cluster:						
Food Distribution Program	10.550	N/A	0	65,941	0	66,449
School Breakfast Program	10.553	05-PU 2000	77,574	0	77,574	0
School Breakfast Program		05-PU 2001	211,165	0	211,165	0
Subtotal CFDA #10.553			288,739	0	288,739	0
National School Lunch Program	10.555	LL-P1 & P4 2000	349,497	0	349,497	0
National School Lunch Program		LL-P1 & P4 2001	907,737	0	907,737	0
Subtotal CFDA #10.555			1,257,234	0	1,257,234	0
Summer Food Service Program for Children	10.559	23 & 24-PU 2000	16,620	0	16,620	0
Total U.S. Dept. of Agriculture - Nutrition Cluster			1,562,593	65,941	1,562,593	66,449
U.S. DEPARTMENT OF DEFENSE						
<i>Direct Assistance:</i>						
Junior ROTC	12.000	N/A	18,952	0	18,952	0
U.S. DEPARTMENT OF LABOR						
<i>Pass-Through the Cuyahoga County Dept. of Entitlement/Employment Services</i>						
Job Training Partnership Act	17.246	SYETP & CY 01	67,851	0	91,443	0
<i>Pass-Through the Ohio Department of Education:</i>						
School to Work	17.249	43901 WK-BE 00 99	0	0	2,000	0
School to Work		43901 WK-BE 00	86,177	0	114,671	0
Subtotal CFDA #17.249			86,177	0	116,671	0
Total U.S. Department of Labor			154,028	0	208,114	0
TOTAL FEDERAL FINANCIAL ASSISTANCE			\$6,785,672	\$65,941	\$7,961,555	\$66,449

The accompanying notes are an integral part of the financial statements.

**EAST CLEVELAND CITY SCHOOL DISTRICT
CUYAHOGA COUNTY**

NOTES TO SCHEDULE OF FEDERAL AWARDS EXPENDITURES

NOTE A - SIGNIFICANT ACCOUNTING POLICIES

The accompanying schedule of federal awards expenditures is a summary of the activity of the District's federal awards programs. The schedule has been prepared on the cash basis of accounting.

NOTE B - FOOD DISTRIBUTION

Nonmonetary assistance is reported in the schedule at the fair market value of the commodities received and disbursed.

NOTE C - NATIONAL SCHOOL LUNCH AND SPECIAL MILK PROGRAMS

Federal monies received by the District for these programs are commingled with State grants and local revenues. It is assumed that federal monies are expended first.

N/A - Not applicable

CFDA - Catalog of Federal Domestic Assistance

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**STATE OF OHIO
OFFICE OF THE AUDITOR**

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**REPORT ON COMPLIANCE AND ON INTERNAL CONTROL REQUIRED
BY GOVERNMENT AUDITING STANDARDS**

Board of Education
East Cleveland City School District
Cuyahoga County
15305 Terrace Road
East Cleveland, Ohio 44112

We have audited the financial statements of the East Cleveland City School District, Cuyahoga County, Ohio, (the District) as of and for the year ended June 30, 2001, and have issued our report thereon dated March 29, 2002. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed an instance of noncompliance that is required to be reported under *Government Auditing Standards* which is described in the accompanying schedule of findings as item 2001-10818-001. We also noted immaterial instances of noncompliance that we have reported to management of the District in a separate letter dated March 29, 2002.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the District's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention that, in our judgment, could adversely affect the District's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in the accompanying schedule of findings as items 2001-10818-002 and 2001-10818-003.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. We considered the reportable conditions described above, items 2001-10818-002 and 2001-10818-003, to be material weaknesses.

We also noted other matters involving the internal control over financial reporting that do not require inclusion in this report, that we have reported to management of the District in a separate letter dated March 29, 2002.

This report is intended for the information and use of management, the Board of Education and federal awarding agencies and pass-through entities, and is not intended to be and should not be used by anyone other than these specified parties.

Jim Petro
Auditor of State

March 29, 2002



STATE OF OHIO
OFFICE OF THE AUDITOR

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**REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO MAJOR
FEDERAL PROGRAMS AND INTERNAL CONTROL OVER COMPLIANCE
IN ACCORDANCE WITH OMB CIRCULAR A-133**

Board of Education
East Cleveland City School District
Cuyahoga County
15305 Terrace Road
East Cleveland, Ohio 44112

Compliance

We have audited the compliance of the East Cleveland City School District, Cuyahoga County, Ohio, (the District) with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133, Compliance Supplement* that is applicable to each of its major federal programs for the year ended June 30, 2001. The District's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the District's management. Our responsibility is to express an opinion on the District's compliance based on our audit.

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

In our opinion, the District complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2001.

Internal Control Over Compliance

The management of the District is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the District's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

East Cleveland City School District
Cuyahoga County
Report on Compliance with Requirements Applicable to
Major Federal Programs and Internal Control Over Compliance
in Accordance with *OMB Circular A-133*
Page 2

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses. However, we noted other matters involving the internal control over federal compliance that do not require inclusion in this report, that we have reported to management of the District in a separate letter dated March 29, 2002.

This report is intended for the information and use of management, the Board of Education and federal awarding agencies and pass-through entities, and is not intended to be and should not be used by anyone other than these specified parties.

Jim Petro
Auditor of State

March 29, 2002

**EAST CLEVELAND CITY SCHOOL DISTRICT
CUYAHOGA COUNTY**

**FOR THE FISCAL YEAR ENDED JUNE 30, 2001
SCHEDULE OF FINDINGS**

SUMMARY OF AUDITOR'S RESULTS

(d)(1)(i)	Type of Financial Statement Opinion	Unqualified
(d)(1)(ii)	Were there any material control weakness conditions reported at the financial statement level (GAGAS)?	Yes
(d)(1)(ii)	Were there any other reportable control weakness conditions reported at the financial statement level (GAGAS)?	No
(d)(1)(iii)	Was there any reported material non-compliance at the financial statement level (GAGAS)?	Yes
(d)(1)(iv)	Were there any material internal control weakness conditions reported for major federal programs?	No
(d)(1)(iv)	Were there any other reportable internal control weakness conditions reported for major federal programs?	No
(d)(1)(v)	Type of Major Programs' Compliance Opinion	Unqualified
(d)(1)(vi)	Are there any reportable findings under § .510?	No
(d)(1)(vii)	Major Programs (list):	CFDA # 84.010 - Title I Special Education Cluster 84.027 - Title VI-B 84.173 - Preschool Grant 84.340 - Class Size Reduction 93.776 - Title XIX (CAFS) 84.348 - Title I Accountability 82.287 - 21 st Century Community Learning Center
(d)(1)(viii)	Dollar Threshold: Type A/B Programs	Type A: > \$ 300,000 Type B: all others
(d)(1)(ix)	Low Risk Auditee?	No

**EAST CLEVELAND CITY SCHOOL DISTRICT
CUYAHOGA COUNTY**

**FOR THE FISCAL YEAR ENDED JUNE 30, 2001
SCHEDULE OF FINDINGS**

SUMMARY OF AUDITOR'S RESULTS

(Continued)

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

Finding Number	2001-10818-001
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Ohio Rev. Code § 5705.41(B), prohibits a subdivision from making an expenditure unless it has been appropriated. Ohio Rev. Code § 5705.41(D), provides that no subdivision shall make any contract or order any expenditure of money unless the certificate of the fiscal officer is attached. The fiscal officer must certify that the amount required to meet such a commitment has been lawfully appropriated and is in the treasury or in the process of collection to the credit of an appropriate fund free from any previous encumbrance. Further, contracts and orders for expenditure lacking prior certification shall be void.

As of March 31, 2001 and June 30, 2001, the following funds had expenditures plus encumbrances in excess of appropriations:

<u>Fund</u>	<u>Total Appropriations</u>	<u>Total Expenditures plus Encumbrances</u>	<u>Excess</u>
<u>As of March 31, 2001</u>			
Food Service	\$1,010,717	\$2,366,101	(\$1,355,384)
Public Schools	17,574	23,716	(6,142)
Other Local Grants	46,615	428,904	(382,289)
District Managed Funds	70,799	260,705	(189,906)
Auxiliary Service	43,647	118,449	(74,802)
Career Development	2,580	62,284	(59,704)
Teacher Development	35,426	51,747	(16,321)
Preschool Grant	65,030	204,155	(139,125)
DPIA	296,982	2,535,554	(2,238,572)
Technical World	0	17,439	(17,439)
Alternative School Grant	100,000	306,348	(206,348)
Miscellaneous Grants	153,758	334,457	(180,699)
Adult Basic Education	18,151	146,693	(128,542)
JTPA Step	52,320	98,216	(45,896)
Eisenhower	26,249	64,773	(38,524)
Title VI-B	33,943	287,806	(253,863)

**EAST CLEVELAND CITY SCHOOL DISTRICT
CUYAHOGA COUNTY**

**FOR THE FISCAL YEAR ENDED JUNE 30, 2001
SCHEDULE OF FINDINGS**

SUMMARY OF AUDITOR'S RESULTS

(Continued)

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

(Continued)

Finding Number	2001-10818-001
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(Continued)

<u>Fund</u>	<u>Total Appropriations</u>	<u>Total Expenditures plus Encumbrances</u>	<u>Excess</u>
Carl Perkins	49,269	193,196	(143,927)
Title I	740,337	2,662,447	(1,922,110)
Title VI	47,115	71,450	(24,335)
Drug Free	23,979	91,019	(67,040)
Preschool Grant	5	59,849	(59,844)
Other Federal Grants	117,387	715,680	(598,293)
Bond Retirement	500,000	585,439	(85,439)
Classroom Facilities	40,000	20,018,764	(19,978,764)
School Net Plus	30,000	327,145	(297,145)
Technical Equity	14,394	42,291	(27,897)
Adult Education	87,929	103,076	(15,147)
Special Grants	5,000	16,140	(11,140)
Student Activities	29,800	46,590	(16,790)
<u>As of June 30, 2001</u>			
Auxiliary Services	105,187	131,661	(26,474)
Preschool Grant	302,599	389,329	(86,730)
Adult Basic Education	151,411	232,798	(81,387)
JTPA	57,965	82,965	(25,000)
Drug Free	45,080	99,974	(54,894)
EHA Preschool Grant	12,760	31,454	(18,694)
Other Federal Grants	942,307	1,029,620	(87,313)

**EAST CLEVELAND CITY SCHOOL DISTRICT
CUYAHOGA COUNTY**

**FOR THE FISCAL YEAR ENDED JUNE 30, 2001
SCHEDULE OF FINDINGS**

SUMMARY OF AUDITOR'S RESULTS

(Continued)

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

(Continued)

Finding Number	2001-10818-002
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The District makes program and service decisions and allocates scarce resources to programs and services through the budget process. As a result, the budget process is one of the most important activities undertaken by the District. The quality of decisions resulting from the budget process and the level of their acceptance depends on the budget process that is used. Ohio Rev. Code §3313.29, requires the Treasurer provide the Board and Superintendent with at least monthly statements as to the appropriations made by the Board and the balances remaining in each appropriation. According to the Treasurer, the Board does not want monthly budgetary reports and she has told the Board that the monthly Appropriation Account Summary (APPSUM) is available to them at any time.

Based on the facts reported in finding number 2001-10818-001, it is apparent that management and the Board need to monitor and revise the budget in a timely manner. This finding indicates the appropriation measurer still in effect nine months into the year is not being used to control and monitor expenditures. An effective budgetary process is critical to the District, given their declining tax base and dependency on state and federal funding.

In addition, a review of the budgetary reports generated by the District's accounting system disclosed the data reported is not in agreement with the source documents. Reports which are not in agreement with the underlying documents severely mitigate the District's ability to monitor budgetary information.

We recommend the Treasurer provide the Board and Superintendent with monthly budgetary information that is acknowledged in the minutes. The information should include estimated vs. actual receipts and appropriations vs. expenditures and encumbrances. Furthermore, the monthly budgetary reports should be updated to reflect the most current financial information.

Finding Number	2001-10818-003
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Timely recognition of cash receipts and disbursements is vital in ascertaining the cash financial position of any entity. Cash balances include cash in bank accounts and other imprest accounts such as payroll. Cash is an asset that is very susceptible to embezzlement and is considered a high risk asset because of its liquidity and its desirability. In order for the cash to be properly monitored and accounted for, most entities perform a monthly bank reconciliation. This reconciliation verifies the cash balance reported in the general ledger agrees to the adjusted balance per the bank statement and it is also used to determine whether all cash receipts and disbursements have been properly recorded.

**EAST CLEVELAND CITY SCHOOL DISTRICT
CUYAHOGA COUNTY**

**FOR THE FISCAL YEAR ENDED JUNE 30, 2001
SCHEDULE OF FINDINGS**

SUMMARY OF AUDITOR'S RESULTS

(Continued)

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

(Continued)

Finding Number	2001-10818-003
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(Continued)

A review of the cash cycle disclosed the following:

- The District's general bank account was not reconciled to the general ledger during fiscal year 2001. As a result, posting errors made to the general ledger were not detected and the District booked an unsupported adjustment for \$808,548 in order to get the general ledger accounting system to reconcile to the bank and investment accounts. The significant posting errors included the omission of a check cashed in May 2001 for \$262,890, over posting of \$115,137 in intergovernmental revenue and under posting \$78,167 in property tax deductions. Furthermore, investment earnings totaling \$75,357 were generated from the payroll clearing accounts and were posted to the general ledger but the funds remained in the clearing accounts. The net affect of these transactions and other errors resulted in the general ledger fund balance being overstated by \$220,817. The financial statements reflect the correcting adjustments.
- During fiscal year 2001, approximately \$318,000 in interest earnings was posted to the general ledger during the first ten months while \$1,282,000 was posted in May and June. The numerous postings that occurred in May and June were made to book interest earned from a variety of investments which had already been earned throughout the year and not due to large investment dollars maturing at the end of the fiscal year. This situation results in investment earnings and cash being understated for ten months of the fiscal year.
- The District is administering several multimillion dollar capital projects. All vendors are being paid by either manual check or bank wire transfer. In both cases, posting of the expenditure to the general ledger is not occurring simultaneously with the payment since it is not generated from the District's accounting system. Payments made by manual check or bank wire transfer must be manually posted to the District's accounting system. During fiscal year 2001, vendor payments were only posted to the accounting system twice. On December 29, 2000 and June 30, 2001, \$7,455,251 and \$2,261,700, respectively, in vendor payments were manually posted to the accounting system. This results in general ledger expenditures being significantly understated and cash significantly overstated for most of the year.
- Several outstanding checks that had been voided were still being accounted for as outstanding. Also, according to the Treasurer, several outstanding checks had been voided and reissued but she was unable to identify these checks. For example, a check payable to the State Employees Retirement System (SERS) for \$32,901 was issued on July 9, 1999 and was still outstanding at June 30, 2001. Since it is highly unlikely that a check payable to SERS would not be cashed or the lack of payment not questioned by SERS, the Treasurer indicated this check was likely to have been cashed and should not be listed as outstanding.

All of the above situations result in cash, receipts and disbursements reported in the monthly financial reports which are significantly under/over stated from the actual financial position.

**EAST CLEVELAND CITY SCHOOL DISTRICT
CUYAHOGA COUNTY**

**FOR THE FISCAL YEAR ENDED JUNE 30, 2001
SCHEDULE OF FINDINGS**

SUMMARY OF AUDITOR'S RESULTS

(Continued)

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

(Continued)

Finding Number

2001-10818-003

(Continued)

Based on the above, we recommend the following:

- Monthly bank to book reconciliations should be performed and be reviewed and approved by the Treasurer.
- All cash receipts and disbursements should be posted to the general ledger at the time the transaction occurs.
- All outstanding checks should be reviewed and their status determined. If they are not valid outstanding checks they should be voided, and the appropriate adjustment should be made to the expenditures ledger.
- The monthly financial reports submitted to management and the Board should be updated to reflect all activity.
- Management and the Board should be reviewing and questioning obvious inconsistencies in the monthly financial reports.

3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS

None

**EAST CLEVELAND CITY SCHOOL DISTRICT
 CUYAHOGA COUNTY
 FOR THE FISCAL YEAR ENDED JUNE 30, 2001**

**SCHEDULE OF PRIOR AUDIT FINDINGS
 OMB CIRCULAR A-133 § .315 (B)**

Finding Number	Finding Summary	Fully Corrected	Not corrected, partially corrected, different corrective action taken; finding no longer valid; Explain
2000-10818-001	Withholding taxes were not remitted timely to the appropriate entities	Yes	
2000-10818-002	GAAP financial statements were not filed in accordance with Ohio Rev. Code §117.38	Yes	
2000-10818-003	Bank accounts were not reconciled during the fiscal year	No	Bank to book reconciliation not performed



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OFFICE OF THE AUDITOR

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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 14, 2002**