



**Auditor of State
Betty Montgomery**

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

**Financial Forecast
For the Fiscal Year Ending June 30, 2003**

Local Government Services Section

East Cleveland City School District
Cuyahoga County

Title	Page
Table of Contents	1
Certification	2
Accountant's Report	3
Schedule of Revenues, Expenditures and Changes in Fund Balance for the Fiscal Years Ended June 30, 2002 Actual; Fiscal Year Ending June 30, 2003 Forecasted	4
Summary of Significant Forecast Assumptions and Accounting Policies.....	5



**Auditor of State
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Board of Education
East Cleveland City School District
15305 Terrace Road
East Cleveland, Ohio 44112

CERTIFICATION

Certification is hereby made that, based upon the requirement set forth in Section 3316.03, Revised Code, the Local Government Services Section of the Auditor of State's Office has examined the financial forecast of the general fund of the East Cleveland City School District, Cuyahoga County, Ohio, and issued a report dated February 18, 2003. The forecast is based on the assumption that the School District will continue to operate its instructional program in accordance with its adopted school calendar and pay all obligations. Additional significant assumptions are set forth in the forecast. Some assumptions inevitably will not materialize, and unanticipated events and circumstances may occur; therefore, the actual results of operations during the forecast period will vary from the forecast, and the variations may be material.

The forecast reflects an operating deficit for the fiscal year ending June 30, 2003 of \$7,698,000.

The forecasted revenues include all property taxes scheduled for settlement during the forecast period. The forecast excludes the receipt of any advances against fiscal year 2004 scheduled property tax settlements. The potential advances have been excluded due to the School District's inability to appropriate this revenue until received and the uncertainty of the timing of any advances. The forecasted operating deficit may be reduced to the extent tax advances are received prior to June 30, 2003 and to the extent the Board appropriates such advances. Currently, it is the Board's intent not to appropriate any such advances for fiscal year 2003.

Peter R. Sorem
Chief of Local Government Services

March 12, 2003



**Auditor of State
Betty Montgomery**

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

Independent Accountant's Report

We have examined the accompanying forecasted schedule of revenues, expenditures and changes in fund balance of the general fund of the East Cleveland City School District for the fiscal year ending June 30, 2003. The East Cleveland City School District's management is responsible for the forecast. Our responsibility is to express an opinion on the forecast based on our examination.

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

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

The School District has been unable to reconcile its financial records with its bank accounts since June 30, 2000. As of January 31, 2003, there was a difference of approximately \$71,000. Management has not determined the effect this difference may have on the forecasted revenues, expenditures and ending fund balance of the general fund.

We have compiled the accompanying schedule of revenues, expenditures and changes in fund balance of the general fund of East Cleveland City School District for the fiscal year ended June 30, 2002 in accordance with Statements on Standards for Accounting and Review Services issued by the American Institute of Certified Public Accountants. A compilation is limited to presenting in the form of financial statements information that is the representation of management. We have not audited or reviewed these financial statements and, accordingly, do not express an opinion or any other form of assurance on them.

Betty Montgomery

Betty Montgomery
Auditor of State

February 18, 2003

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EAST CLEVELAND CITY SCHOOL DISTRICT
 CUYAHOGA COUNTY
 SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
 FOR THE FISCAL YEAR ENDED JUNE 30, 2002 ACTUAL;
 FOR THE FISCAL YEAR ENDING JUNE 30, 2003 FORECASTED
 GENERAL FUND

	Fiscal Year 2002 Actual	Fiscal Year 2003 Forecasted	Variance
Revenues			
General Property Tax (Real Estate)	\$9,023,000	\$8,835,000	(188,000)
Tangible Personal Property Tax	1,773,000	1,900,000	127,000
Unrestricted Grants-in-Aid	27,477,000	26,851,000	(626,000)
Restricted Grants-in-Aid	7,001,000	7,525,000	524,000
Property Tax Allocation	1,278,000	1,154,000	(124,000)
All Other Revenues	1,198,000	1,311,000	113,000
<i>Total Revenues</i>	<u>47,750,000</u>	<u>47,576,000</u>	<u>(174,000)</u>
Other Financing Sources			
Sale of Fixed Assets	0	6,000	6,000
Advances In	1,640,000	436,000	(1,204,000)
<i>Total Other Financing Sources</i>	<u>1,640,000</u>	<u>442,000</u>	<u>(1,198,000)</u>
<i>Total Revenues and Other Financing Sources</i>	<u>49,390,000</u>	<u>48,018,000</u>	<u>(1,372,000)</u>
Expenditures			
Personal Services	31,965,000	31,982,000	17,000
Employees' Retirement/Insurance Benefits	8,363,000	8,474,000	111,000
Purchased Services	7,017,000	9,439,000	2,422,000
Supplies and Materials	1,601,000	1,308,000	(293,000)
Capital Outlay	313,000	622,000	309,000
Other Objects	788,000	733,000	(55,000)
<i>Total Expenditures</i>	<u>50,047,000</u>	<u>52,558,000</u>	<u>2,511,000</u>
Other Financing Uses			
Operating Transfers Out	261,000	250,000	(11,000)
Advances Out	436,000	1,990,000	1,554,000
<i>Total Other Financing Uses</i>	<u>697,000</u>	<u>2,240,000</u>	<u>1,543,000</u>
<i>Total Expenditures and Other Financing Uses</i>	<u>50,744,000</u>	<u>54,798,000</u>	<u>4,054,000</u>
<i>Excess of Revenues and Other Financing Sources Under Expenditures and Other Financing Uses</i>	(1,354,000)	(6,780,000)	(5,426,000)
Cash Balance July 1	1,984,000	630,000	(1,354,000)
Cash Balance (Deficit) June 30	630,000	(6,150,000)	(6,780,000)
Less: Encumbrances and Reserves:			
Actual/Estimated Encumbrances June 30	1,514,000	975,000	(539,000)
Reservations of Fund Balance:			
Capital Improvements	421,000	573,000	152,000
Disadvantaged Pupil Impact Aid	130,000	0	(130,000)
Total Encumbrances and Reservations of Fund Balance	<u>2,065,000</u>	<u>1,548,000</u>	<u>(517,000)</u>
Unencumbered/Unreserved Fund Balance (Deficit) June 30	<u>(\$1,435,000)</u>	<u>(\$7,698,000)</u>	<u>(\$6,263,000)</u>

See accompanying summary of significant forecast assumptions and accounting policies

East Cleveland City School District
Cuyahoga County

Summary of Significant Assumptions and Accounting Policies
For the Fiscal Year Ending June 30, 2003

Note 1 - Nature and Limitations of the Forecast

This financial forecast presents, to the best of the East Cleveland City School District Board of Education's knowledge and belief, the expected revenues, expenditures and operating balance of the general fund. Accordingly, the forecast reflects the Board of Education's judgment of the expected conditions and its expected course of action as of February 18, 2003, the date of this forecast. The assumptions disclosed herein are those that management believes are significant to the forecast. Differences between the forecasted and actual results will usually arise because events and circumstances frequently do not occur as expected, and those differences may be material.

Note 2 - Nature of the Presentation

The forecast presents the revenues, expenditures, and changes in fund balance of the general fund. Under State law, certain general fund resources received from the State must be spent on specific programs. These resources and the related expenditures have been segregated in the accounting records of the School District to demonstrate compliance. For presentation in the forecast, the general fund has been adjusted to include the financial activity of the disadvantaged pupil impact aid fund.

Note 3 - Summary of Significant Accounting Policies

A. - Basis of Accounting

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

B. - Fund Accounting

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

Governmental Funds

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

East Cleveland City School District
Cuyahoga County

Summary of Significant Assumptions and Accounting Policies
For the Fiscal Year Ending June 30, 2003

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

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

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

Proprietary Funds

Enterprise Funds - Enterprise funds 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 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.

Fiduciary Funds

Trust and Agency Funds - Trust and agency funds account for assets held by the School District in a trustee capacity or as an agent for individuals, private organizations, other governmental units, and/or other funds. These include (a) expendable trust funds, (b) non-expendable trust funds, and (c) agency funds.

C. - Budgetary Process

The budgetary process is prescribed by provisions of the Ohio Revised Code and entails the preparation of budgetary documents within an established timetable. The major documents prepared are the tax budget, the certificate of estimated resources, and the appropriation resolution, all of which are prepared on the budgetary basis of accounting. The certificate of estimated resources and the appropriations resolution are subject to amendment throughout the year with the legal restriction that appropriations cannot exceed estimated resources, as certified. All funds, other than agency funds, are legally required to be budgeted and appropriated. The primary level of budgetary control is at the object level within each function in the general fund and at the fund level for all other funds. Any budgetary modifications at this level may only be made by resolution of the Board of Education.

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

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

East Cleveland City School District
Cuyahoga County

Summary of Significant Assumptions and Accounting Policies
For the Fiscal Year Ending June 30, 2003

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

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

Note 4 - General Operating Assumptions

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

Note 5 - Significant Assumptions for Revenues and Other Financing Sources

A. - General and Tangible Personal Property Taxes

Property taxes consist of real property, public utility real and personal property and tangible personal property taxes. Advances may be requested from the Cuyahoga County Auditor as the taxes are collected. When settlements are made, any amounts remaining to be distributed to the School District are paid. Deductions for auditor and treasurer fees, advertising delinquent taxes, election expenses, and other fees are made at these settlement times.

State law allows for certain reductions in the form of rollbacks and homestead exemption for real estate taxes and exempts from taxation the first \$10,000 of tangible personal property. The State reimburses the School District for all revenues lost due to these exemptions. The amount of the reimbursement is presented in the forecast schedule in the account "property tax allocation".

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

Tax Levies	Year Approved	Full Tax Rate (Per \$1,000 of Assessed Valuation)
Inside Ten Mill Limitation	n/a	\$4.78
Continuing Operating	1976 and Prior	50.90
Continuing Operating	1982	5.90
Continuing Operating	1985	7.90
Continuing Operating	1989	8.90
Continuing Operating	1992	10.00
<i>Total Tax Rate</i>		\$88.38

East Cleveland City School District
Cuyahoga County

Summary of Significant Assumptions and Accounting Policies
For the Fiscal Year Ending June 30, 2003

The School District also has a levy for bonded debt and classroom facilities maintenance for a combined rate of \$4.02 per \$1,000 of assessed valuation.

Ohio law provides for a reduction in the rates of voted levies to offset increased values resulting from a reappraisal of real property. Reduction factors are applied to voted levies so that each levy yields the same amount of property taxes as in the year in which the levy was approved. Increases to voted levy revenues are restricted to assessments for new construction. The reduction factors are computed annually and applied separately for residential/agricultural property and commercial/industrial property. The effective residential and agricultural rate is \$42.84 per \$1,000 of assessed valuation and the effective commercial and industrial rate is \$64.73 per \$1,000 of assessed valuation.

General Property Tax (Real Estate) - General property tax revenue includes real estate taxes and public utility property taxes. The amounts shown in the revenue section of the forecast schedule represents gross general property tax revenue. The general property tax revenue estimate is based upon actual receipts and information provided by the Cuyahoga County Auditor. Based upon these estimates, the School District anticipates receiving \$8,835,000 in real estate and public utility tax revenue, a decrease of \$188,000 from the prior fiscal year. This decrease is primarily due to a large amount of delinquent taxes. Current delinquent real estate taxes for tax year 2001 are \$1,757,000. Total delinquent real estate taxes for tax year 2001 are \$4,864,000.

Tangible Personal Property Tax - Tangible personal property taxes are levied against property used in business (except for public utilities). As with general property taxes, tangible personal property tax revenue estimates are based upon information provided by the Cuyahoga County Auditor. Based upon current information from the County Auditor, the School District anticipates receiving \$1,900,000 in tangible personal property tax revenue, a \$128,000 increase over the previous fiscal year.

B. - Unrestricted Grants-in-Aid

State foundation payments established by Chapter 3317 of the Ohio Revised Code are calculated by the State Department of Education, Division of School Finance, on the basis of pupil enrollment (ADM), classroom teacher ratios and other factors. The funds are distributed on a semi-monthly basis.

Deductions from the monthly payments for contributions to the two school retirement systems are included in the expenditure section. Unrestricted grants-in-aid includes total formula aid, equity aid, special education aid, training and experience of classroom teachers funding, gifted aid, transportation, and vocational education.

In 2001, State law set the base cost per pupil at \$4,294 and increased the rate each year thereafter to \$4,490 for fiscal year 2002, and \$4,949 for fiscal year 2003. The cost per pupil is multiplied by the average daily membership to determine the base formula amount of State aid.

The anticipated revenue for fiscal year 2003 is based on current estimates provided by the Ohio Department of Education. The amount reported on the most recent school foundation statement of settlement is \$26,561,000, which represents a \$916,000 decrease from the prior fiscal year. This decrease is primarily due to a decline in student enrollment and equity aid.

The School District's foundation revenues of \$26,561,000 includes equity aid in the amount of \$1,122,000. Equity aid is being phased out by a third each year through fiscal year 2006. The decrease in equity aid from fiscal year 2002 is \$365,000.

East Cleveland City School District
Cuyahoga County

Summary of Significant Assumptions and Accounting Policies
For the Fiscal Year Ending June 30, 2003

Governor Bob Taft has proposed an across the board reduction in State aid to school districts to take effect before the end of the current fiscal year. The amount of this reduction, if any, has not been determined nor has any reduction been reflected in the forecast.

Beginning in tax year 2001, there were significant reductions in the valuation of certain types of public utility property. Two bills enacted by the 123rd General Assembly reduced the assessment rate for certain tangible personal property of electric utilities and all tangible personal property of gas utilities. To replace this money, new state consumption taxes have been enacted, a kilowatt-hour tax on electricity and a thousand cubic foot tax on natural gas. Money from these new taxes are used to reimburse school districts for public utility property tax revenue loss. Reimbursements are to be made twice a year in February and August. The School District is anticipating \$290,000 in public utility reimbursements in fiscal year 2003, which is based on information provided by the Ohio Department of Taxation.

C. - Restricted Grants-in-Aid

Restricted grants-in-aid consist of parity aid, vocational education funding and disadvantaged pupil impact aid revenues. The School District is anticipating restricted grants-in-aid of \$7,525,000, which includes \$1,816,000 in parity aid, \$281,000 in vocational education monies and \$5,428,000 in DPIA revenues. The \$524,000 increase is the result of the School District receiving vocational education monies for the first time and a large increase in parity aid revenues. This is offset by a decrease in disadvantaged pupil impact aid revenues.

D. - Property Tax Allocation

State law grants tax relief in the form of a ten percent reduction in real property tax bills. In addition, a two and one-half percent rollback is granted on residential property taxes. Tax relief is also granted to qualified elderly and disabled homeowners based on their income. The State reimburses the School District for the loss of real property taxes as a result of the rollback and homestead tax relief programs. Property tax allocation revenue, based on information provided by the Cuyahoga County Auditor, is anticipated to be \$1,154,000, a \$124,000 decrease from fiscal year 2002. The decrease is primarily due to a large amount of delinquent taxes and the School District posting \$60,000 as revenue to the general fund instead of to other funds in fiscal year 2002.

E. - All Other Revenues

All other revenues include tuition, interest on investments, classroom fees, Community Alternative Funding System (CAFS) and miscellaneous receipts from local sources.

All other revenues consist of the following amounts:

Revenue Sources	Actual Fiscal Year 2002	Forecast Fiscal Year 2003	Variance Increase (Decrease)
Tuition	\$347,000	\$338,000	(\$9,000)
Interest on Investments	125,000	115,000	(10,000)
Classroom Fees	2,000	2,000	0
CAFS	501,000	506,000	5,000
Miscellaneous	223,000	350,000	127,000
Totals	<u>\$1,198,000</u>	<u>\$1,311,000</u>	<u>\$113,000</u>

East Cleveland City School District
Cuyahoga County

Summary of Significant Assumptions and Accounting Policies
For the Fiscal Year Ending June 30, 2003

Interest is based on historical investment practices and anticipated rates during the forecast period. The School District pools cash from all funds for investment purposes. Investments are restricted by provisions of the Ohio Revised Code and are valued at cost. Following Ohio statutes, the Board of Education has, by resolution, specified the funds to receive an allocation of interest earnings with the largest allocation going to the general fund.

The increase in miscellaneous revenue is the result of the School District receiving a refund for an overpayment of medicaid in the prior fiscal year.

F. - Other Financing Sources

Sale of Fixed Assets – The School District anticipates receiving \$6,000 from the sale of fixed assets.

Advances In – During fiscal year 2002, the general fund borrowed from the following funds to cover the cash deficit:

<u>Fund</u>	<u>Amount</u>
Bond Retirement	\$1,000,000
Preschool	162,000
Career Development	23,000
Adult Basic Education	143,000
Eisenhower	56,000
Title VI-B	220,000
Drug Free Schools	14,000
Preschool Grant	9,000
School to Work	13,000
	<u>\$1,640,000</u>

During the current fiscal year, the general fund is expected to receive \$436,000 in advances, which represents amounts loaned to other funds in the prior fiscal year that are being repaid to the general fund in the forecast year. The School District does not expect to borrow from other funds to cover the current fiscal year deficit.

Note 6 - Significant Assumptions for Expenditures and Other Financing Uses

A. - Personal Services

Personal service expenditures represent the salaries and wages paid to certified employees, classified and administrative staff, substitutes, student workers and board members. In addition to regular salaries, it includes payment for supplemental contracts, severance pay, mentor pay, optional day pays and class coverage pay. All employees receive their compensation on a bi-weekly basis.

Certified (teaching) staff salaries are based on a negotiated contract which includes base and step increases and educational incentives for existing staff. The contract covers the period of April 4, 2002 to April 3, 2005 and allows for a three percent increase for fiscal year 2003. The contract for classified staff covers the period July 1, 2001 to June 30, 2003, and allows for a three percent increase for fiscal year 2003. Administrative salaries are set by the Board of Education.

East Cleveland City School District
Cuyahoga County

Summary of Significant Assumptions and Accounting Policies
For the Fiscal Year Ending June 30, 2003

Salaries forecasted for fiscal year 2003 are based on current negotiated contracts which include base and step increases. The salaries were forecasted by using actual payrolls for the period July 1, 2002 through January 17, 2003, with the January 17 payroll being used to estimate the remaining 13 payrolls. The January 17 payroll reflects all general fund staff reductions and the reductions in general fund salary expenditures caused by the decision to begin paying certain employees from grant funds rather than the general fund.

Upon retirement, the School District offers its certified and classified employees severance pay of twenty-five percent of their unused sick leave up to a maximum of 250 days for certified employees and up to a maximum of 260 days for classified employees. Severance pay for the current fiscal year includes only those employees eligible to retire who are below 55 years of age. The prior fiscal year included severance pay for all employees. Severance pay for employees eligible for retirement and age 55 and over is now paid into the Bencor plan, which is classified as an employee benefit and addressed in the following section of this report.

Other salaries and wages include mentor pay, optional day pays, class coverage pay, student workers and board compensation. A \$429,000 increase is expected in fiscal year 2003. This increase is primarily due to the prior year's mentor cost being paid in the current fiscal year. In addition, student worker costs are expected to have a large increase due to the School District compensating students who participate in the Career Tech program who previously were being paid by an employer.

Presented below is a comparison of salaries and wages for fiscal year 2002 and the forecast period.

	Actual Fiscal Year 2002	Forecast Fiscal Year 2003	Variance Increase (Decrease)
Certified Salaries	\$22,719,000	\$23,117,000	\$398,000
Classified Salaries	6,325,000	5,946,000	(379,000)
Substitute Salaries	1,212,000	1,250,000	38,000
Supplemental Contracts	350,000	365,000	15,000
Severance Pay	714,000	316,000	(398,000)
Overtime	110,000	125,000	15,000
Other Salaries and Wages	434,000	863,000	429,000
Totals	<u>\$31,864,000</u>	<u>\$31,982,000</u>	<u>\$118,000</u>

B. - Employees' Retirement/Insurance Benefits

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

Retirement costs are based on the employers' contribution rate of fourteen percent of salaries for STRS and SERS. Payments are made based upon estimated salary for each fiscal year. Adjustments resulting from over/under estimates are prorated over the next calendar year. Retirement costs are forecasted to decrease due to a \$355,000 overpayment of retirement costs in fiscal year 2002, reductions in staff and the shift of certain staff salaries from the general to grant funds.

East Cleveland City School District
Cuyahoga County

Summary of Significant Assumptions and Accounting Policies
For the Fiscal Year Ending June 30, 2003

Health care costs are based on the coverage terms of the existing health insurance contracts, the anticipated number of employees participating in the program and the monthly premiums. Over 50 percent of covered employees are in a preferred provider medical plan and the other half are in a traditional medical plan. Medical care costs are anticipated to increase due to an eight percent rate increase effective October 1, 2002.

Dental and life insurance premiums are based on the coverage amount, the anticipated number of employees participating in the program and the monthly premiums. Dental insurance will decrease due to a switch from Core Source, which offered a two tier plan (single and family) to Met Life, which offers a three tier plan. The Met Life plan allows for single coverage, two person coverage (husband and wife), and family coverage. The reduction results from employees moving from family coverage to the lower priced two person coverage offered by Met Life.

Workers' compensation premiums are based on the School District's premium rate and the anticipated salaries for the fiscal year. Workers compensation will increase due to the School District receiving a credit of 50 percent on their premium in fiscal year 2003 compared to a 75 percent credit received in fiscal year 2002. Medicare benefits are based on the employers' rate of 1.45 percent times the payroll costs for contributing staff.

Unemployment is based on actual unemployment claims being received by the School District. The increase is due to the School District misposting unemployment costs to purchased services in the prior fiscal year.

Bencor, a third party administrator, now handles the severance payments of accumulated vacation and sick leave for eligible School District employees. To qualify, employees have to retire from the School District with 25 or 30 years of service and be age 55 or older. Once notified of an employee's retirement, the School District makes a payment to Bencor for severance. Payments to the plan are tax deferred until the retiree withdraws the monies. The School District adopted the Bencor plan on June 24, 2002.

Presented below is a comparison of fiscal year 2002 and the forecast period:

	Actual Fiscal Year 2002	Forecast Fiscal Year 2003	Variance Increase (Decrease)
Employer's Retirement	\$5,073,000	\$4,505,000	(\$568,000)
Insurance	2,979,000	3,043,000	64,000
Workers' Compensation	48,000	141,000	93,000
Unemployment	0	132,000	132,000
Medicare	263,000	268,000	5,000
Bencor (Severance Pay)	0	385,000	385,000
Totals	\$8,363,000	\$8,474,000	\$111,000

East Cleveland City School District
Cuyahoga County

Summary of Significant Assumptions and Accounting Policies
For the Fiscal Year Ending June 30, 2003

C. - Purchased Services

Purchased service expenditures forecasted in the amount of \$9,439,000 are comprised of the following:

	Actual Fiscal Year 2002	Forecast Fiscal Year 2003	Variance Increase (Decrease)
Professional and Technical Services	\$2,717,000	\$3,207,000	\$490,000
Property Services	1,089,000	1,597,000	508,000
Travel and Meeting Expenses	69,000	85,000	16,000
Communication Costs	60,000	76,000	16,000
Utility Services	862,000	1,250,000	388,000
Trade Services	31,000	38,000	7,000
Tuition Payments	1,502,000	2,135,000	633,000
Pupil Transportation	396,000	414,000	18,000
Other Purchased Services	291,000	637,000	346,000
Totals	\$7,017,000	\$9,439,000	\$2,422,000

Professional and technical services are anticipated to increase due to the School District being responsible for payments to contractors for additional change orders to construction projects which were not part of the original classroom facilities project. Property services will increase due to an increase in property insurance costs and increased costs for security services in School District buildings. Utility costs are anticipated to increase as costs for electricity, gas, and water/sewer services continue to rise. Tuition is expected to increase due to the School District making tuition payments to other school districts from fiscal year 2000 in the current fiscal year and increased payments to community schools.

D. - Supplies and Materials

Supplies and materials are comprised of the following:

	Actual Fiscal Year 2002	Forecast Fiscal Year 2003	Variance Increase (Decrease)
General Supplies, Library Books and Periodicals	\$468,000	\$603,000	\$135,000
Operations, Maintenance and Repair	278,000	364,000	86,000
Food and Other	0	30,000	30,000
Textbooks	855,000	311,000	(544,000)
Totals	\$1,601,000	\$1,308,000	(\$293,000)

The School District is forecasting a \$293,000 decrease in materials and supplies for the forecast period. This is primarily due to the School District purchasing a large amount of textbooks in the prior fiscal year which will not recur in the forecast year.

East Cleveland City School District
Cuyahoga County

Summary of Significant Assumptions and Accounting Policies
For the Fiscal Year Ending June 30, 2003

E. - Capital Outlay

The purchase or construction of property, plant and equipment that will be used in providing general governmental services is recorded as an expenditure. Depreciation is not recorded for these general fixed assets as the purpose of the financial statements for the general governmental activities is to report the expenditure of resources, not costs.

Capital outlay expenditures are forecasted in the amount of \$622,000. The \$309,000 increase from fiscal year 2002 is due to the School District's purchase in the current fiscal year of two new buses, as well as land for some of the many construction projects taking place in the School District.

F. - Other Objects

Other object expenditures consist of dues and fees, insurance payments, judgments and taxes and assessments. Other object expenditures are forecasted in the amount of \$733,000, which reflects a decrease of \$55,000 over fiscal year 2002. The decrease is primarily due to decreased County Auditor and Treasurer costs for property tax collections.

G. - Operating Transfers and Advances Out

The School District expects to make transfers from the general fund in the amount of \$250,000 during fiscal year 2003 to the athletics special revenue fund and the adult education enterprise fund for operations. The general fund will advance out \$1,990,000 during the current fiscal year. The majority of the advances are to repay monies that were loaned to the general fund in the prior fiscal year.

Note 7 - Encumbrances

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

Encumbrances for benefits, purchased services, supplies and materials, capital outlay and other objects for fiscal year ended June 30, 2002 were \$1,514,000 and are forecasted at \$975,000 for June 30, 2003. The decrease in encumbrances is due to School District instituting cost cutting measures.

Note 8 - Reservations of Fund Balance

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

East Cleveland City School District
Cuyahoga County

Summary of Significant Assumptions and Accounting Policies
For the Fiscal Year Ending June 30, 2003

A. - Textbooks and Instructional Materials

The set aside requirement for fiscal year 2003 is \$774,000. The School District had excess qualifying expenditures from the prior fiscal year of \$153,000 and anticipates \$858,000 in qualifying expenditures during the current fiscal year; therefore, no reserve for textbooks and instructional materials is forecasted.

B. - Capital Acquisition and Improvements

The set aside amount for fiscal year 2003 is \$774,000. There was a carryover of \$421,000 from fiscal year 2002. The School District anticipates \$622,000 in qualifying expenditures in fiscal year 2003; therefore, a reserve for capital acquisition and improvements of 573,000 is forecasted.

C. - Disadvantaged Pupil Impact Aid

At June 30, 2002 the School District had a DPIA balance of \$130,000. The School District anticipates receiving \$5,428,000 in restricted DPIA monies during fiscal year 2003 and forecast spending \$5,558,000. Therefore, there is no reserve included for DPIA.

D. - Parity Aid

Parity aid is restricted to school districts declared to be in a state of academic emergency, under an academic watch or in need of continuous improvement under Section 3302.03 of the Revised Code. The School District expects to receive and spend \$1,816,000 in parity aid monies during fiscal year 2003. Therefore, there is no reserve included for parity aid.

Note 9 - Levies

In the past ten years, the School District has placed three levies on the ballot. The type of levy, rate, term and election results are as follows:

<u>Date</u>	<u>Type</u>	<u>Amount</u>	<u>Term</u>	<u>Election Results</u>
November 1992	Operating	10.0 mills	Continuing	Passed
November 1997	Bond Issue	.5 mills	23 Years	Passed
November 1997	Bond Issue	3.52 mills	23 Years	Passed

Note 10 - Pending Litigation

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

East Cleveland City School District
Cuyahoga County

Summary of Significant Assumptions and Accounting Policies
For the Fiscal Year Ending June 30, 2003

Note 11 - State School Funding Decision

On December 11, 2002, the Ohio Supreme Court issued its latest opinion regarding the State's school funding plan. The decision reaffirmed earlier decisions that Ohio's current school-funding decision is unconstitutional.

The Supreme Court relinquished jurisdiction over the case and directed "...the Ohio General Assembly to enact a school-funding scheme that is thorough and efficient..."

The School District is currently unable to determine what effect, if any, this decision will have on its future State funding and on its financial operations.



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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
MARCH 12, 2003**