



**Auditor of State  
Betty Montgomery**

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

**Financial Forecast  
For the Fiscal Year Ending June 30, 2005**

**Local Government Services Section**

East Cleveland City School District  
Cuyahoga County

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**Auditor of State  
Betty Montgomery**

Financial Planning and Supervision Commission  
Ohio Department of Education  
25 South Front Street  
Columbus, Ohio 43215

and

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 3316.08, Revised Code, the Local Government Services Section of the Auditor of State's Office has examined the financial forecast of the general fund of the East Cleveland City School District, Cuyahoga County, Ohio and issued a report dated March 21, 2005. The forecast is based on the assumption that the School District will continue to operate its instructional program in accordance with its adopted school calendar and pay all obligations. Additional significant assumptions are set forth in the forecast. Some assumptions inevitably will not materialize, and unanticipated events and circumstances may occur; therefore, the actual results of operations during the forecast period will vary from the forecast, and the variations may be material.

The forecast reflects an operating surplus for the fiscal year ending June 30, 2005 of \$570,000.

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 2006 scheduled property tax settlements. The potential advances have been excluded due to the School District's inability to appropriate this revenue until received and the uncertainty of the timing of any advances. Currently, it is the Board's intent not to appropriate any such advances for fiscal year 2005.

A handwritten signature in black ink that reads "Betty Montgomery".

Betty Montgomery  
Auditor of State

May 27, 2005



**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 statement of revenues, expenditures and changes in fund balance of the general fund of the East Cleveland City School District for the fiscal year ending June 30, 2005. The East Cleveland City School District's management is responsible for the forecast. Our responsibility is to express an opinion on the forecast based on our examination.

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

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

The accompanying statement of revenues, expenditures and changes in fund balance of the general fund of East Cleveland City School District for the fiscal years ended June 30, 2002, 2003 and 2004 were compiled by us in accordance with the Statements on Standards for Accounting and Review Services issued by the American Institute of Certified Public Accountants. A compilation is limited to presenting in the form of financial statements information that is the representation of management. We have not audited or reviewed this financial information, and, accordingly, do not express an opinion or any other form of assurance on them.

A handwritten signature in black ink that reads "Betty Montgomery".

Betty Montgomery  
Auditor of State

March 21, 2005

EAST CLEVELAND CITY SCHOOL DISTRICT  
 CUYAHOGA COUNTY  
 STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE  
 FOR THE FISCAL YEARS ENDED JUNE 30, 2002 THROUGH 2004 ACTUAL;  
 FOR THE FISCAL YEAR ENDING JUNE 30, 2005 FORECASTED  
 GENERAL FUND

	Fiscal Year 2002 Actual	Fiscal Year 2003 Actual	Fiscal Year 2004 Actual	Fiscal Year 2005 Forecasted
<b>Revenues</b>				
General Property Tax (Real Estate)	\$9,023,000	\$9,071,000	\$8,680,000	\$9,544,000
Tangible Personal Property Tax	1,773,000	1,661,000	1,389,000	1,355,000
Unrestricted Grants-in-Aid	27,477,000	27,186,000	30,605,000	30,922,000
Restricted Grants-in-Aid	7,001,000	7,726,000	5,724,000	5,768,000
Property Tax Allocation	1,278,000	1,252,000	1,353,000	1,283,000
All Other Revenues	1,198,000	1,518,000	1,844,000	2,511,000
<i>Total Revenues</i>	<u>47,750,000</u>	<u>48,414,000</u>	<u>49,595,000</u>	<u>51,383,000</u>
<b>Other Financing Sources</b>				
Advances In	1,640,000	436,000	946,000	371,000
Solvency Assistance Advance	0	7,698,000	0	0
Operating Transfers In	0	0	5,000	0
<i>Total Other Financing Sources</i>	<u>1,640,000</u>	<u>8,134,000</u>	<u>951,000</u>	<u>371,000</u>
<i>Total Revenues and Other Financing Sources</i>	<u>49,390,000</u>	<u>56,548,000</u>	<u>50,546,000</u>	<u>51,754,000</u>
<b>Expenditures</b>				
Personal Services	31,965,000	32,047,000	28,387,000	26,595,000
Employees' Retirement/Insurance Benefits	8,363,000	8,187,000	8,102,000	8,110,000
Purchased Services	7,017,000	7,943,000	8,856,000	9,850,000
Supplies and Materials	1,601,000	1,020,000	873,000	785,000
Capital Outlay	313,000	450,000	47,000	296,000
Debt Service				
Principal Retirement - Solvency Assistance Advance	0	0	3,849,000	3,849,000
Other Objects	788,000	724,000	621,000	584,000
<i>Total Expenditures</i>	<u>50,047,000</u>	<u>50,371,000</u>	<u>50,735,000</u>	<u>50,069,000</u>
<b>Other Financing Uses</b>				
Operating Transfers Out	261,000	250,000	240,000	1,240,000
Advances Out	436,000	1,946,000	371,000	445,000
All Other Financing Uses	0	2,000	0	0
<i>Total Other Financing Uses</i>	<u>697,000</u>	<u>2,198,000</u>	<u>611,000</u>	<u>1,685,000</u>
<i>Total Expenditures and Other Financing Uses</i>	<u>50,744,000</u>	<u>52,569,000</u>	<u>51,346,000</u>	<u>51,754,000</u>
<i>Excess of Revenues and Other Financing Sources Over (Under) Expenditures and Other Financing Uses</i>	(1,354,000)	3,979,000	(800,000)	0
Cash Balance July 1	1,989,000	635,000	4,614,000	4,097,000
Prior Period Correction	0	0	283,000	0
Cash Balance June 30	635,000	4,614,000	4,097,000	4,097,000
<b>Encumbrances and Reserves:</b>				
Actual/Estimated Encumbrances June 30	1,460,000	793,000	1,271,000	800,000
Reserve for Textbooks and Instructional Materials	375,000	145,000	327,000	610,000
Reserve for Disadvantaged Pupil Impact Aid	130,000	1,810,000	2,117,000	2,117,000
<i>Total Encumbrances and Reserves of Fund Balance</i>	<u>1,965,000</u>	<u>2,748,000</u>	<u>3,715,000</u>	<u>3,527,000</u>
Unencumbered/Unreserved Fund Balance (Deficit) June 30	<u>(\$1,330,000)</u>	<u>\$1,866,000</u>	<u>\$382,000</u>	<u>\$570,000</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, 2005

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**Note 1 - The School District**

The East Cleveland City School District (School District) is located in Cuyahoga County and encompasses all of the city of East Cleveland. The School District is organized under Article VI, Sections 2 and 3, of the Constitution of the State of Ohio. The legislative power of the School District is vested in the Board of Education, consisting of five members elected at large for staggered four year terms. The School District operates sixteen public schools including one high school, three junior high schools and twelve elementary schools. The School District is staffed by 204 non-certified and 363 certificated personnel to provide services to 5,080 students and other community members.

**Note 2 - Nature of the Forecast**

This financial forecast presents, to the best of the East Cleveland City School District Board of Education's knowledge and belief, the expected revenues, expenditures and operating balance of the general fund. Accordingly, the forecast reflects the Board of Education's judgment of the expected conditions and its expected course of action as of March 21, 2005, the date of this forecast. The assumptions disclosed herein are those that management believes are significant to the forecast. Differences between the forecasted and actual results will usually arise because events and circumstances frequently do not occur as expected, and those differences may be material.

**Note 3 - Nature of the Presentation**

The forecast presents the revenues, expenditures, and changes in fund balance of the general fund. Under State law, certain general fund 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. State laws also require the general fund resources pledged for the repayment of debt to be recorded directly in the debt service fund. For presentation in the forecast, the disadvantaged pupil impact aid fund is included in the general fund.

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

**A. Basis of Accounting**

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

East Cleveland City School District - Cuyahoga County  
Summary of Significant Assumptions and Accounting Policies  
For the Fiscal Year Ending June 30, 2005

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**B. Fund Accounting**

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

**Governmental Funds**

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

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

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

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

**Proprietary Funds**

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

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

**Fiduciary Funds**

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

**C. Budgetary Process**

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

East Cleveland City School District - Cuyahoga County  
Summary of Significant Assumptions and Accounting Policies  
For the Fiscal Year Ending June 30, 2005

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

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

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

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

#### **Note 5 - General Operating Assumptions**

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

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

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

Property taxes consist of real property, public utility real and personal property and tangible personal property taxes. General property tax revenue includes real estate taxes and public utility property taxes. Tangible personal property tax is applied to property used in business (except for public utilities). Property taxes are distributed to the School District by the Cuyahoga County Auditor. The School District may request advances from the county auditor as the taxes are collected. When final settlements are made, any amounts remaining to be distributed to the School District are paid. Deductions for auditor and treasurer fees, advertising delinquent taxes, election expenses, and other fees are made at these settlement times. The amounts shown in the revenue section of the forecast represent gross property tax revenue.

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



East Cleveland City School District - Cuyahoga County  
 Summary of Significant Assumptions and Accounting Policies  
 For the Fiscal Year Ending June 30, 2005

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Tax Levies	Year Approved	Full Tax Rate Per \$1,000 of Assessed Valuation
Inside Ten Mill Limitation (Unvoted)	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
Total Tax Rate		<u>\$88.38</u>

The School District has other levies for bonded debt and classroom facilities totaling \$4.02 per \$1,000 of assessed valuation. The School District's total rate is \$92.40 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, other than emergency and bond levies, are restricted to assessments for new construction. The reduction factors are computed annually and applied separately for residential/agricultural property and commercial/industrial property. Reduction factors are not applied to inside millage (an unvoted levy) and tangible personal property levy rates. The effective residential and agricultural rate is \$39.11 per \$1,000 of assessed valuation and the effective commercial and industrial rate is \$60.77 per \$1,000 of assessed valuation for collection year 2005.

General Property Tax (Real Estate) - The general property tax revenue is based upon actual receipts and information provided by the Cuyahoga County Auditor.

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

Tangible Personal Property Tax - Tangible personal property tax revenues are based upon information provided by the Cuyahoga County Auditor. The \$34,000 decrease is attributed to the phase out of the personal property exemption and the tangible personal property tax on inventory.

The State exempts from taxation for each taxpayer the first \$10,000 of personal property. The State reimburses the School District for the lost revenue. This reimbursement is included in the tangible personal property tax revenues. Beginning with tax year 2004, the State will phase out the reimbursement by 10 percent each year.

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

Unrestricted Grants-in-Aid include State Foundation payments and reimbursement for lost revenue due to utility deregulation. State Foundation payments include formula aid and various categorical aid programs such as special and gifted education, career and technical education, and transportation. Other programs such as parity aid, excess cost supplement, and charge-off supplement are provided to address certain policy issues or correct flaws in formula aid and are also included in this revenue.

East Cleveland City School District - Cuyahoga County  
 Summary of Significant Assumptions and Accounting Policies  
 For the Fiscal Year Ending June 30, 2005

The State's foundation program is established by Chapter 3317 of the Ohio Revised Code. The semi-monthly payments are calculated by the State Department of Education, Division of School Finance, on the basis of average daily membership (ADM) times a per pupil foundation level (adjusted for a regional cost of doing business factor set by the State legislature) less the equivalent of 23 mills times the school district's taxable property valuation. The per pupil foundation level for fiscal year 2002 was set by State legislature at \$4,490 and \$4,949 for 2003. In 2003, State law set the base cost per pupil for fiscal year 2004 at \$5,058 and \$5,169 for fiscal year 2005.

Presented below is a comparison of unrestricted grants-in-aid for fiscal years 2002, 2003, 2004 and the forecast period.

	Actual Fiscal Year 2002	Actual Fiscal Year 2003	Actual Fiscal Year 2004	Forecasted Fiscal Year 2005	Variance Increase (Decrease)
Formula Aid	\$22,329,000	\$22,159,000	\$21,061,000	\$20,873,000	(\$188,000)
Basic Aid Guarantee	0	884,000	2,241,000	2,563,000	322,000
Categorical Funding	2,502,000	2,204,000	2,003,000	2,080,000	77,000
Transportation	301,000	485,000	841,000	798,000	(43,000)
Parity Aid	0	0	3,328,000	3,661,000	333,000
Reappraisal Guarantee	245,000	0	0	0	0
Equity Aid	1,487,000	1,122,000	795,000	382,000	(413,000)
Budget Reduction Order		(268,000)	0	0	0
Foundation Adjustments	613,000	22,000	(249,000)	(47,000)	202,000
Total Foundation	27,477,000	26,608,000	30,020,000	30,310,000	290,000
Utility Deregulation	0	578,000	585,000	612,000	27,000
Total Unrestricted Grants-in-Aid	<u>\$27,477,000</u>	<u>\$27,186,000</u>	<u>\$30,605,000</u>	<u>\$30,922,000</u>	<u>\$317,000</u>

Formula aid decreased due to a decline in ADM of 115 and an increase in the recognized property valuation. These amounts are offset by increases in the base cost per pupil. Basic Aid Guarantee is the amount of additional aid on top of the current year's calculated formula aid needed to bring the School District up to the fiscal year 1998 level, the guaranteed amount. Parity aid continues its phase in with the percentage of the calculated amount going from 40 percent in fiscal year 2003 to 58 percent in fiscal year 2004, and 76 percent in fiscal year 2005. Equity aid is being phased out each year through fiscal year 2005.

The budget reduction order represents the reduction in State aid to school districts imposed by the Governor in order to balance the State's budget. No similar reduction in State aid is anticipated for fiscal year 2005.

Beginning in tax year 2001, there were significant reductions in the valuation of certain types of public utility property. Two bills enacted by the 123<sup>rd</sup> General Assembly reduced the assessment rate for certain tangible personal property of electric utilities and all tangible personal property of gas utilities. To replace this money, new state consumption taxes have been enacted, a kilowatt-hour tax on electricity and a thousand cubic foot tax on natural gas. Money from these new taxes is used to reimburse school districts for the loss of public utility property tax revenue. Reimbursements are to be made twice a year in February and August.

East Cleveland City School District - Cuyahoga County  
 Summary of Significant Assumptions and Accounting Policies  
 For the Fiscal Year Ending June 30, 2005

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

Restricted grants-in-aid consist of the bus purchase allowance, career tech monies and DPIA monies. For fiscal year 2005, the School District anticipates \$3,000 in bus purchase allowance monies, \$350,000 in career tech monies and \$5,415,000 in DPIA monies. A \$44,000 increase is anticipated from the prior fiscal year due primarily to an increase in DPIA, which is offset by a decrease in career tech monies and bus purchase allowance.

**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 decrease by \$70,000 from the prior fiscal year. The School District failed to allocate the property tax allocation to the proper funds in the prior fiscal year, which resulted in the decrease.

**E. All Other Revenues**

All other revenues consist of the following:

Revenue Sources	Actual Fiscal Year 2002	Actual Fiscal Year 2003	Actual Fiscal Year 2004	Forecasted Fiscal Year 2005	Variance Increase (Decrease)
Tuition	\$347,000	\$700,000	\$1,150,000	\$1,676,000	\$526,000
Interest on Investments	52,000	52,000	107,000	44,000	(63,000)
Classroom Materials and Fees	0	3,000	7,000	1,000	(6,000)
CAFS	1,000	347,000	183,000	259,000	76,000
Refunds of Prior Year Expenditures	1,000	357,000	190,000	246,000	56,000
Other Miscellaneous	0	59,000	207,000	285,000	78,000
<b>Totals</b>	<b>\$401,000</b>	<b>\$1,518,000</b>	<b>\$1,844,000</b>	<b>\$2,511,000</b>	<b>\$667,000</b>

The School District receives tuition for students from other school districts who attend the East Cleveland City School District. For fiscal year 2005, a \$526,000 increase is expected primarily due to the increase in open enrollment students coming into East Cleveland School District.

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 greatest allocation going to the general fund.

**F. Advances In**

During fiscal year 2004, advances were made for a total of \$371,000 to other School District funds. For fiscal year 2005, those advances are expected to be repaid, therefore advances in has been forecasted for \$371,000.

East Cleveland City School District - Cuyahoga County  
 Summary of Significant Assumptions and Accounting Policies  
 For the Fiscal Year Ending June 30, 2005

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

**A. Personal Services**

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

Staffing levels at the date of this forecast are at 567 full time equivalents and are expected to remain at this level for the remainder of the forecast period. A comparison of staffing levels for the past two fiscal years and the current fiscal year and are presented below:

	Fiscal Year 2003	Fiscal Year 2004	Fiscal Year 2005
General Fund:			
Certified	391	332	289
Classified	180	142	126
Total General Fund	571	474	415
Other Funds			
Certified	59	71	74
Classified	104	82	78
Total Other Funds	163	153	152
Totals	734	627	567

Certified (teacher) staff salaries are based on a negotiated contract that includes base and step increases and educational incentives. The contract covers the period of April 4, 2002 to April 3, 2005, and allows for a 3 percent increase in base salary as well as average step increases of 3.5 percent for fiscal year 2005. In the prior fiscal year, certified and classified staff received base increases of 2 and 3 percent, respectively, as well as 3.5 to 5.0 percent step increases each year. Forecasted salaries reflect current negotiated contracts. Salaries were forecasted by using actual payrolls for the period July 1, 2004 through December 31, 2004, with the January 28 payroll being used to estimate the remaining 12 payrolls. The January 28 payroll reflects general fund staff reductions of 59 employees and the reductions in general fund salary expenditures caused by the decision to pay certain employees from grant funds.

Substitute costs are forecasted to decrease from the prior fiscal year as the result of costs being paid out of grant funds for substitutes during an in-service training. In addition, the number of supplemental contracts was reduced.

Upon retirement, the School District offers its certified and classified employees severance pay based on a percentage of their accrued but unused sick leave. Certified employees are entitled to severance pay of 50 percent of their unused sick leave, up to a maximum of 320 accrued days, if notification is given to the School District by March 31. The payment is reduced to 25 percent if notification is received after March 31. Classified employees are entitled severance pay of 35 percent of their unused sick leave, up to a maximum of 295 accrued days. Severance pay for the current fiscal year includes only those employees who are eligible to retire and are below 55 years of age. 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 decrease is expected as the number of student workers and the opportunities for mentor pay and class coverage pay have decreased from prior years.

East Cleveland City School District - Cuyahoga County  
 Summary of Significant Assumptions and Accounting Policies  
 For the Fiscal Year Ending June 30, 2005

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Presented below is a comparison of salaries and wages for fiscal years 2002, 2003, 2004 and the forecast period.

	Actual Fiscal Year 2002	Actual Fiscal Year 2003	Actual Fiscal Year 2004	Forecast Fiscal Year 2005	Variance Increase (Decrease)
Certified Salaries	\$22,886,000	\$23,128,000	\$20,266,000	\$19,651,000	(\$615,000)
Classified Salaries	6,225,000	5,915,000	5,571,000	5,265,000	(306,000)
Substitute Salaries	1,213,000	1,451,000	1,141,000	820,000	(321,000)
Supplemental Contracts	350,000	358,000	249,000	230,000	(19,000)
Severance Pay	668,000	333,000	484,000	196,000	(288,000)
Overtime	110,000	95,000	42,000	49,000	7,000
Other Salaries and Wages	513,000	767,000	634,000	384,000	(250,000)
Totals	<u>\$31,965,000</u>	<u>\$32,047,000</u>	<u>\$28,387,000</u>	<u>\$26,595,000</u>	<u>(\$1,792,000)</u>

**B. Employees' Retirement/Insurance Benefits**

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

Retirement costs are based on the employer's contribution rate of fourteen percent for STRS and SERS. Payments are made based upon estimated salary and wages for each fiscal year. Adjustments resulting from over/under estimates are prorated over the next calendar year. Retirement costs are forecasted to decrease from fiscal year 2004 primarily due to a decrease of 60 staff positions throughout the School District.

Health care costs are based on the coverage terms of the 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 remaining employees are in a traditional medical plan. Health care premiums are anticipated to increase due to a 20 percent rate increase effective October 1, 2004.

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 cost will increase slightly. The life insurance cost will decrease as a result of decreased staffing levels.

Workers' compensation is based on the School District's assigned rate and the actual salaries and wages paid in the previous calendar year. The increase is due to an increase in the assigned rate and the calendar year wages, which are offset by a 20 percent rebate of the premium. In fiscal years 2002, 2003, and 2004, the rebates were 75 percent, 50 percent and 20 percent, respectively. These rebates were partially offset by increases in the assigned rate. Medicare benefits are based on the employer's rate of 1.45 percent times the payroll costs for contributing staff.

Unemployment costs are based on the number of individuals whose employment with the School District ended and qualify for benefits. The School District reduced staffing levels from fiscal year 2004.

Bencor, a third party administrator, 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 employees 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. Cost are increasing in fiscal year 2005 as more employees retire before the end of the current contract.

Presented below is a comparison of fiscal years 2002, 2003, 2004 and the forecast period:

East Cleveland City School District - Cuyahoga County  
 Summary of Significant Assumptions and Accounting Policies  
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	Actual Fiscal Year 2002	Actual Fiscal Year 2003	Actual Fiscal Year 2004	Forecast Fiscal Year 2005	Variance Increase (Decrease)
Employer's Retirement Health, Dental, Vision and Life Insurance	\$5,141,000	\$4,438,000	\$4,071,000	\$3,313,000	(\$758,000)
Workers' Compensation	2,916,000	2,905,000	3,084,000	3,552,000	468,000
Unemployment	48,000	183,000	93,000	320,000	227,000
Medicare	0	241,000	251,000	291,000	40,000
Bencor (Severance Pay)	258,000	57,000	210,000	211,000	1,000
Totals	0	363,000	393,000	423,000	30,000
	<u>\$8,363,000</u>	<u>\$8,187,000</u>	<u>\$8,102,000</u>	<u>\$8,110,000</u>	<u>\$8,000</u>

**C. Purchased Services**

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

	Actual Fiscal Year 2002	Actual Fiscal Year 2003	Actual Fiscal Year 2004	Forecast Fiscal Year 2005	Variance Increase (Decrease)
Professional and Technical Services	\$2,717,000	\$2,252,000	\$1,873,000	\$1,437,000	(\$436,000)
Property Services	1,090,000	1,312,000	1,069,000	833,000	(236,000)
Travel and Meeting Expenses	69,000	27,000	23,000	23,000	0
Communication Costs	60,000	77,000	73,000	166,000	93,000
Utility Services	862,000	1,039,000	1,153,000	1,107,000	(46,000)
Trade Services	30,000	36,000	17,000	27,000	10,000
Tuition Payments	1,502,000	2,418,000	4,032,000	5,716,000	1,684,000
Pupil Transportation	396,000	293,000	329,000	266,000	(63,000)
Other Purchased Services	291,000	489,000	287,000	275,000	(12,000)
Totals	<u>\$7,017,000</u>	<u>\$7,943,000</u>	<u>\$8,856,000</u>	<u>\$9,850,000</u>	<u>\$994,000</u>

The School District anticipates decreases in most categories through the implementation of cost-cutting procedures. Tuition paid to other school districts is anticipated to increase because of open enrollment, special education and students enrolling in community schools. The increase in communication costs is primarily due to additional phone expenses as well as increases in postage and advertising costs.

**D. - Supplies and Materials**

Presented below are the supplies and materials expenditures for the last three fiscal years and the forecast period.

	Actual Fiscal Year 2002	Actual Fiscal Year 2003	Actual Fiscal Year 2004	Forecast Fiscal Year 2005	Variance Increase (Decrease)
General Supplies, Library Books and Periodicals	\$467,000	\$434,000	\$323,000	\$336,000	\$13,000
Operations, Maintenance and Repair	278,000	290,000	261,000	275,000	14,000
Textbooks	856,000	296,000	289,000	174,000	(115,000)
Totals	<u>\$1,601,000</u>	<u>\$1,020,000</u>	<u>\$873,000</u>	<u>\$785,000</u>	<u>(\$88,000)</u>

The decrease in materials and supplies is due to the need to implement cost cutting measures by the School District.

East Cleveland City School District - Cuyahoga County  
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**E. - Capital Outlay**

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

Capital outlay expenditures are forecasted in the amount of \$296,000. The increase from fiscal year 2004 is due to demolition costs incurred by the School District during the forecast period.

**F. - Debt Service**

General fund supported debt consists of the solvency assistance advance from fiscal year 2003. The advance is repaid over a two-year period, with the final payment in June 2005.

**G. - Other Objects**

Other object expenditures consist of dues and fees, insurance payments, judgments and taxes and assessments. The School District anticipates a \$37,000 decrease in insurance expenditures since fiscal year 2005 coverage was paid in fiscal year 2004.

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

The School District expects to make transfers of \$1,240,000 from the general fund to the food service, athletics and adult education funds for operations. The general fund will advance out \$445,000 during the current fiscal year to provide operating resources until grant monies are received.

**Note 8 - Encumbrances**

Encumbrances represent purchase authorizations and contracts for goods or services that are pending vendor performance and those purchase commitments, which have been performed, invoiced, and are awaiting payment. Encumbrances on the budgetary 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 expenditures for fiscal year ended June 30, 2004 were \$1,271,000 and are forecasted at \$800,000 for June 30, 2005. The decrease is primarily due to the School District monitoring purchase orders more closely.

**Note 9 - Reservations of Fund Balance**

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

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For the Fiscal Year Ending June 30, 2005

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**A. Textbooks and Instructional Materials**

The set aside requirement for fiscal year 2005 is \$756,000. There was a carryover of \$327,000 in set-aside dollars from fiscal year 2004. The School District will have \$473,000 in qualifying expenditures for textbooks and instructional materials during the current fiscal year; therefore, a reserve of \$610,000 for textbooks and instructional materials is forecasted.

**B. - Capital Acquisition and Improvements**

The set aside amount for fiscal year 2005 is \$756,000. There was a carryover of \$7,702,000 in excess qualified expenditures from the prior fiscal years. The School District anticipates \$123,000 in offsets in fiscal year 2005; therefore, no reserve for capital acquisition and improvements is forecasted.

**D. Disadvantaged Pupil Impact Aid (DPIA)**

At June 30, 2004, the School District had \$2,117,000 in unspent DPIA monies. The School District anticipates receiving \$5,415,000 in restricted DPIA monies during fiscal year 2005 and anticipates spending \$5,415,000 in DPIA expenditures during fiscal year 2005. Therefore, a reserve of \$2,117,000 is anticipated for DPIA.

**Note 10 - Levies**

In the past ten years, the School District has placed several 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 1997	Classroom Facilities	.5 mills	23 Years	Passed
November 1997	Bond Issue	\$10,559,716	23 Years	Passed

**Note 11 - Pending Litigation**

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

**Note 12 - 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.



East Cleveland City School District - Cuyahoga County  
Summary of Significant Assumptions and Accounting Policies  
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**Note 13 - Financial Planning and Supervision Commission**

On April 3, 2003, the School District was declared to be in a state of "Fiscal Emergency" by the Auditor of State. Legislation effective September 1996, permitted this declaration due to the School District's declining financial condition. In accordance with the law, a five-member Financial Planning and Supervision Commission has been established to oversee the financial affairs of the School District. The Commission is comprised of the State Superintendent of Public Instruction and the State Director of Budget and Management or their designees, and three appointed members. The appointments are made by the Governor of the State of Ohio, the State Superintendent of Public Instruction and the Mayor of the City of East Cleveland.

The Commission's primary charge is to develop, adopt and implement a financial recovery plan. The original financial recovery plan was adopted on July 29, 2003 and under State law is to be updated annually. The recovery plan was updated on May 24, 2004 and includes the reduction of 66 staff members paid from the general fund during fiscal year 2005 of which 59 have been made.

**Note 14 – Prior Period Corrections**

The prior period correction represents unrecorded transactions and transactions improperly recorded from prior fiscal years. Several transactions are identified and posted as the School District attempts to reconcile its financial records to the bank statements.



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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 27, 2005**