



**Auditor of State
Betty Montgomery**

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

**Financial Forecast
For the Fiscal Year Ending June 30, 2006**

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 May 3, 2006. 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, 2006 of \$5,715,000.

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 2007 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 2006.

BETTY MONTGOMERY
Auditor of State

A handwritten signature in black ink that reads "Peter R. Sorem".

Peter R. Sorem
Chief of Local Government Services

June 29, 2006

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**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, 2003, 2004 and 2005 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.

Betty Montgomery

Betty Montgomery
Auditor of State

May 3, 2006

EAST CLEVELAND CITY SCHOOL DISTRICT
 CUYAHOGA COUNTY
 STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
 FOR THE FISCAL YEARS ENDED JUNE 30, 2003 THROUGH 2005 ACTUAL;
 FOR THE FISCAL YEAR ENDING JUNE 30, 2006 FORECASTED
 GENERAL FUND

| | Fiscal Year 2003 Actual | Fiscal Year 2004 Actual | Fiscal Year 2005 Actual | Fiscal Year 2006 Forecasted |
|--|----------------------------|----------------------------|----------------------------|--------------------------------|
| Revenues | | | | |
| General Property Taxes | \$9,071,000 | \$8,680,000 | \$9,544,000 | \$9,727,000 |
| Tangible Personal Property Taxes | 1,661,000 | 1,389,000 | 1,397,000 | 1,256,000 |
| Unrestricted Grants-in-Aid | 27,186,000 | 30,605,000 | 30,862,000 | 30,443,000 |
| Restricted Grants-in-Aid | 7,726,000 | 5,724,000 | 5,871,000 | 5,715,000 |
| Property Tax Allocation | 1,252,000 | 1,353,000 | 1,419,000 | 1,167,000 |
| All Other Revenues | 1,518,000 | 1,844,000 | 3,128,000 | 2,247,000 |
| <i>Total Revenues</i> | <u>48,414,000</u> | <u>49,595,000</u> | <u>52,221,000</u> | <u>50,555,000</u> |
| Other Financing Sources | | | | |
| Advances In | 436,000 | 946,000 | 0 | 2,058,000 |
| Solvency Assistance Advance | 7,698,000 | 0 | 0 | 0 |
| Operating Transfers In | 0 | 5,000 | 0 | 0 |
| <i>Total Other Financing Sources</i> | <u>8,134,000</u> | <u>951,000</u> | <u>0</u> | <u>2,058,000</u> |
| <i>Total Revenues and Other Financing Sources</i> | <u>56,548,000</u> | <u>50,546,000</u> | <u>52,221,000</u> | <u>52,613,000</u> |
| Expenditures | | | | |
| Personal Services | 32,047,000 | 28,387,000 | 25,664,000 | 25,033,000 |
| Employees' Retirement/Insurance Benefits | 8,187,000 | 8,102,000 | 7,542,000 | 7,546,000 |
| Purchased Services | 7,943,000 | 8,856,000 | 10,102,000 | 11,449,000 |
| Supplies and Materials | 1,020,000 | 873,000 | 782,000 | 831,000 |
| Capital Outlay | 450,000 | 47,000 | 281,000 | 63,000 |
| Debt Service | | | | |
| Principal Retirement - Solvency Assistance Advance | 0 | 3,849,000 | 3,849,000 | 0 |
| Other Objects | 724,000 | 621,000 | 662,000 | 319,000 |
| <i>Total Expenditures</i> | <u>50,371,000</u> | <u>50,735,000</u> | <u>48,882,000</u> | <u>45,241,000</u> |
| Other Financing Uses | | | | |
| Operating Transfers Out | 250,000 | 240,000 | 1,345,000 | 1,000,000 |
| Advances Out | 1,946,000 | 371,000 | 2,058,000 | 2,100,000 |
| All Other Financing Uses | 2,000 | 0 | 0 | 0 |
| <i>Total Other Financing Uses</i> | <u>2,198,000</u> | <u>611,000</u> | <u>3,403,000</u> | <u>3,100,000</u> |
| <i>Total Expenditures and Other Financing Uses</i> | <u>52,569,000</u> | <u>51,346,000</u> | <u>52,285,000</u> | <u>48,341,000</u> |
| <i>Excess of Revenues and Other Financing Sources Over (Under) Expenditures and Other Financing Uses</i> | <u>3,979,000</u> | <u>(800,000)</u> | <u>(64,000)</u> | <u>4,272,000</u> |
| Cash Balance July 1 | 635,000 | 4,631,000 | 4,114,000 | 4,050,000 |
| Adjustments to Reconcile Cash | 17,000 | 283,000 | 0 | 0 |
| Cash Balance June 30 | 4,631,000 | 4,114,000 | 4,050,000 | 8,322,000 |
| Encumbrances and Reserves: | | | | |
| Actual/Estimated Encumbrances June 30 | 793,000 | 1,271,000 | 1,928,000 | 1,800,000 |
| Reserve for Textbooks and Instructional Materials | 145,000 | 327,000 | 521,000 | 643,000 |
| Reserve for Disadvantaged Pupil Impact Aid | 1,810,000 | 2,117,000 | 1,340,000 | 164,000 |
| <i>Total Encumbrances and Reserves of Fund Balance</i> | <u>2,748,000</u> | <u>3,715,000</u> | <u>3,789,000</u> | <u>2,607,000</u> |
| Unencumbered/Unreserved Fund Balance (Deficit) June 30 | <u>\$1,883,000</u> | <u>\$399,000</u> | <u>\$261,000</u> | <u>\$5,715,000</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, 2006

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 173 non-certified and 335 certificated personnel to provide services to 4,454 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 May 3, 2006, 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, general fund supported debt, the disadvantaged pupil impact aid and poverty based assistance funds are included in the general fund.

Note 4 - Summary of Significant Accounting Policies

A. Basis of Accounting

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

East Cleveland City School District - Cuyahoga County
Summary of Significant Assumptions and Accounting Policies
For the Fiscal Year Ending June 30, 2006

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).

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

Proprietary Funds

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

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

Fiduciary Funds

Fiduciary funds account for assets held by the School District in a trustee capacity or as an agent for individuals, private organizations, or other 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, 2006

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

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

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

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

Note 5 - General Operating Assumptions

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

Note 6 - Significant Assumptions for Revenues and Other Financing Sources

A. - General and Tangible Personal Property Taxes

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

Property taxes are levied and assessed on a calendar year basis while the School District's fiscal year runs from July through June. Property tax revenue includes amounts levied against all real, public utility real and tangible, and business tangible personal property located in the School District. Property tax revenue received during calendar year 2005 for real and public utility property taxes represents collections of calendar year 2004 taxes. Property tax payments received during calendar year 2005 for tangible personal property (other than public utility property) are for calendar year 2005 taxes. First half calendar year tax collections are received by the School District in the second half of the fiscal year. Second half calendar year tax distributions occur in the first half of the following fiscal year.

East Cleveland City School District - Cuyahoga County
 Summary of Significant Assumptions and Accounting Policies
 For the Fiscal Year Ending June 30, 2006

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". Beginning in calendar year 2006, the State of Ohio eliminated the ten percent rollback on commercial and industrial property. This change will increase real property taxes collected on commercial and industrial property and decrease property tax allocation revenue.

The forecast excludes the receipt of any advances against fiscal year 2007 schedule 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 surplus may be increased to the extent advances are received prior to June 30, 2006 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 2006.

The property tax revenues for the School District are generated from several levies. The current levies being collected for the General Fund, the year approved, last year of collection, and the full tax rate are as follows:

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

The School District also has 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.

General Property Taxes - General property tax revenue includes real estate taxes, public utility property taxes, and manufactured home taxes. The amounts shown in the revenue section of the forecast schedule represent gross property tax revenue. The general property tax revenue is based upon actual receipts and information provided by the Cuyahoga County Auditor.

Ohio law provides for a reduction in the rates of voted levies to offset increased values resulting from a reappraisal of real property. Reduction factors are applied to voted levies so that each levy yields the same amount of real property tax revenues on carryover property as in the prior year. For all voted levies except emergency and debt levies, increases in revenues are restricted to amounts generated from new construction. Emergency and debt levies are intended to generate a set revenue amount annually. The revenue generated by emergency and debt levies is not affected by changes in real property valuation. The reduction factors are computed annually and applied separately for residential/agricultural real property and commercial/industrial real property. Reduction factors are not applied to inside millage (an unvoted levy) and tangible personal property levy rates. State law also prohibits the reduction factors from reducing the effective millage of the sum of the general fund current operating levies plus inside millage (excluding emergency levies) below 20 mills. For the General Fund, the effective residential and agricultural real property tax rate is \$35.49 per \$1,000 of assessed valuation and the effective commercial and industrial real property tax rate is \$56.68 per \$1,000 of assessed valuation for collection year 2006.

East Cleveland City School District - Cuyahoga County
Summary of Significant Assumptions and Accounting Policies
For the Fiscal Year Ending June 30, 2006

Public utility real and personal property taxes are collected and settled by the county with real estate taxes and are recorded as general property taxes. Beginning in 2001, the Ohio General Assembly reduced the assessment rate for certain tangible personal property of electric and gas utilities from 88 percent to 25 percent. Starting in tax year 2005, the assessment rate for personal property owned by telephone utilities prior to 1995 was being phased down from 88 percent to 25 percent (in tax year 2007) over a three-year period. Beginning in 2007, HB 66 will switch telephone companies from being public utilities to general business taxpayers and phase out the tangible personal property tax on local and inter-exchange telephone companies. No tangible personal property taxes will be levied or collected after 2010 on local and inter-exchange telephone companies. The State of Ohio will reimburse the School District for the loss of tangible personal property taxes as a result of these changes within certain limitations (see Property Tax Allocation Revenue below).

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

Beginning in 2006, HB 66 will phase out, by 25 percent each year, tangible personal property tax on most business inventory, manufacturing machinery and equipment, and furniture and fixtures. This change supersedes the changes and phase out periods addressed above. No tangible personal property taxes will be levied or collected in 2009 from general business taxpayers (except telephone companies whose last year to pay tangible personal property tax is 2010). Most new manufacturing machinery and equipment that would have been first taxable in tax year 2006 and thereafter will not be subject to any tangible personal property tax. The School District, based on the 2004 calendar year tangible personal property tax collections, will lose approximately \$1,400,000 when the tangible personal property tax is completely phased out in 2009. These changes do not affect tangible personal property of public utilities. The State of Ohio will reimburse the School District for the loss of tangible personal property taxes as a result of the changes in HB 66 within certain limitations (see Property Tax Allocation Revenue below).

Tangible personal property tax revenues include the actual settlement for October 2005 and an estimate for the June 2006 personal property tax settlement. The decrease in revenue for the forecast period compared to the prior fiscal year is due to reductions in the percentages used to calculate the assessed valuation offset by increases in personal property.

The State exempts the first \$10,000 in tangible personal property from taxation. The State reimburses the School District for the lost revenue. Beginning with tax year 2004, the State will begin phasing out the reimbursement by 10 percent each year. Under HB 66, the phase-out period has been accelerated. The last reimbursement for this exemption will be in October 2008.

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 which are provided to address certain policy issues or correct flaws in formula aid are also included in this revenue.

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 pupil enrollment (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

East Cleveland City School District - Cuyahoga County
 Summary of Significant Assumptions and Accounting Policies
 For the Fiscal Year Ending June 30, 2006

district's taxable property valuation. The regional cost of doing business factor is being phased out over a three-year period through fiscal year 2008. The per pupil foundation level has been set by the State legislature as follows:

| Fiscal Year | Per Pupil Foundation Level |
|----------------|-------------------------------|
| 2003 | \$4,949 |
| 2004 | 5,058 |
| 2005 | 5,169 |
| 2006 | 5,283 |

The anticipated unrestricted grants-in-aid for fiscal year 2006 are based on current estimates available from the Ohio Department of Education. The most recent estimates reported on the April school foundation statement for fiscal year 2006, and the amounts for the last three fiscal years are as follows:

| | Actual | | | Forecasted | Variance Between FY 05 and FY 06 |
|---|---------------------|---------------------|---------------------|---------------------|--|
| | Fiscal Year 2003 | Fiscal Year 2004 | Fiscal Year 2005 | Fiscal Year 2006 | |
| Formula Aid | \$22,159,000 | \$21,061,000 | \$21,026,000 | \$19,346,000 | (\$1,680,000) |
| Basic Aid Guarantee | 884,000 | 2,241,000 | 2,354,000 | 0 | (2,354,000) |
| Transitional Aid Guarantee | 0 | 0 | 0 | 4,628,000 | 4,628,000 |
| Categorical Funding | 2,204,000 | 2,003,000 | 2,346,000 | 2,027,000 | (319,000) |
| Equity Aid | 1,122,000 | 795,000 | 382,000 | 0 | (382,000) |
| Parity Aid | 0 | 3,328,000 | 3,683,000 | 3,457,000 | (226,000) |
| Transportation | 485,000 | 841,000 | 389,000 | 389,000 | 0 |
| Budget Reduction | (268,000) | 0 | 0 | 0 | 0 |
| Prior Year SF-3 Adjustments | 22,000 | (249,000) | 69,000 | (82,000) | (151,000) |
| Total Foundation | 26,608,000 | 30,020,000 | 30,249,000 | 29,765,000 | (484,000) |
| Utility Deregulation | 578,000 | 585,000 | 613,000 | 678,000 | 65,000 |
| Total Unrestricted Grants In Aid | \$27,186,000 | \$30,605,000 | \$30,862,000 | \$30,443,000 | (\$419,000) |

Formula Aid is decreasing due to a decline in ADM of 420 and an increase in the recognized property valuation, offset by an increase in the per pupil foundation level. Also, the cost of doing business factor applied to the per pupil amount was reduced by one-third in fiscal year 2006, and will be reduced by another one-third for fiscal year 2007 and eliminated in fiscal year 2008. Categorical funding decreased due to a decrease in classroom units and special education transportation. Equity aid was phased out each year through fiscal year 2005. Parity aid continues its phase in with the amount distributed going from 58 percent in fiscal year 2004 to 76 percent in fiscal year 2005, and 100 percent in fiscal year 2006. Transitional aid guarantee is intended to ease the impact of the many changes under H.B. 66 made in the formula aid for fiscal year 2006. The basic aid guarantee was eliminated under H.B. 66.

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 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, 2006

C. - Restricted Grants-in-Aid

Restricted grants-in-aid consist of career tech monies and Poverty Based Assistance/DPIA monies. For fiscal year 2006, the School District anticipates \$320,000 in career tech monies and \$5,395,000 in Poverty Based Assistance monies which replaced the DPIA program. A \$156,000 decrease is anticipated from the prior year due primarily to the School District receiving less career tech and Poverty Based Assistance/DPIA monies. In addition, the prior year has a \$35,000 misposting to bus purchase monies.

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. Beginning in 2006, the State eliminated the ten percent rollback credit on commercial and industrial real property and the reimbursement to local governments. Homestead and rollback revenue is based on the historical percentage relationship to real estate tax revenue adjusted for the loss of the ten percent rollback on commercial and industrial property. The School District anticipates a \$252,000 decrease, primarily due to a posting error in the prior fiscal year.

Beginning in fiscal year 2006, the State will reimburse the School District for lost revenue due to the phase out of tangible personal property tax. In the first five years, the School District will be fully reimbursed relative to prior law for revenue lost due to the taxable value reductions prescribed by HB 66. Over the next seven years, the reimbursements are phased out. The reimbursement will be for the difference between the assessment values under prior law and the assessment values under HB 66. This means the School District is only reimbursed for the difference between prior law and the phase-outs in HB 66.

E. - All Other Revenues

Presented below is a comparison of all other revenues for the past three fiscal years and for the forecast period:

| Revenue Sources | Actual | | | Forecast | Variance |
|-----------------------------------|---------------------|---------------------|---------------------|---------------------|--|
| | Fiscal Year 2003 | Fiscal Year 2004 | Fiscal Year 2005 | Fiscal Year 2006 | Between Fiscal Years 2006 and 2005 |
| Tuition | \$700,000 | \$1,150,000 | \$1,921,000 | \$1,423,000 | (\$498,000) |
| Interest | 52,000 | 107,000 | 105,000 | 167,000 | 62,000 |
| Classroom Materials and Fees | 3,000 | 7,000 | 4,000 | 2,000 | (2,000) |
| CAFS | 347,000 | 358,000 | 476,000 | 319,000 | (157,000) |
| Refund of Prior Year Expenditures | 357,000 | 190,000 | 353,000 | 207,000 | (146,000) |
| Other Miscellaneous | 59,000 | 32,000 | 269,000 | 129,000 | (140,000) |
| Totals | \$1,518,000 | \$1,844,000 | \$3,128,000 | \$2,247,000 | (\$881,000) |

The School District receives tuition from other school districts whose students attend the East Cleveland City School District as well as from open enrollment. The anticipated decrease in tuition revenue is due to a decrease in tuition owed to the School District from other school districts.

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.

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Revenues from the Community Alternative Funding System (CAFS) are anticipated to decrease from the prior fiscal year, due to less monies being received from the Federal government for this program.

Refund from prior year expenditures will decrease from the prior fiscal year based on actual amounts received during the forecast period.

The decrease in other miscellaneous revenues is due to the School District receiving less in indirect costs compared to the prior fiscal year.

F. – Advances In

During fiscal year 2005, advances were made for a total of \$2,058,000 to other School District funds. For fiscal year 2006, those advances are expected to be repaid.

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. All employees receive their compensation on a bi-weekly basis. In addition to regular salaries, it includes supplemental contracts, severance pay and payments in lieu of benefits.

The certified, including administrative staff, and classified levels at the date of this forecast are at 508 full time equivalents and are expected to remain at this level for the remainder of the forecast period.

Certified (teacher) staff salaries are based on an expired negotiated contract that includes base and step increases and educational incentives. The contract covered the period of April 4, 2002 to April 3, 2005 and allowed for a two percent increase in base salary as well as average step increases of 3.5 percent for fiscal year 2005. The certified employees are currently working without a contract and are following the terms of the expired contract, with no increase in the base salary, and the same step increases as in fiscal year 2005.

The contract for classified staff covers the period of July 1, 2004 to June 30, 2007, and allows for a three percent base salary increase as well as average step increases of 3.5 percent for fiscal year 2006.

The salaries were forecasted by using actual payrolls for the period July 1, 2004 through April 7, 2006, with the April 7 payroll being used to estimated the remaining 6 payrolls.

Substitute costs are forecasted to decrease from the prior fiscal year as the result of more long-term substitutes being used in the prior fiscal year and some substitute costs being paid out of grant funds during the current fiscal year.

Supplemental contracts costs are expected to decrease from the prior fiscal year due to the number of supplemental contracts being reduced.

Upon retirement, the School District offers its certified and classified employees severance pay of fifty percent of their unused sick leave. Certified employees are entitled to severance pay of fifty percent of their unused sick leave, up to a maximum of 320 days accrued for certified employees, if notification of retirement is given to the School District by March 31. The severance pay is reduced to twenty-five percent if notification of retirement is received after March 31. Classified employees are entitled severance pay of thirty-five percent of their unused sick leave, up to a maximum of 295 days accrued. Severance pay for the current fiscal year includes only those employees eligible to retire who are below 55 years of age. Severance pay for employees eligible for retirement and age 55 and over is now paid into the Bencor plan, which is classified as an employee benefit and addressed in the following section of this report.

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Other salaries and wages include mentor pay, optional day pays, class coverage pay, student workers and board compensation. The \$52,000 increase is primarily due to the School District utilizing more student workers in the forecast period.

Presented below is a comparison of salaries and wages for fiscal years 2003, 2004, 2005 and the forecast period.

| | Actual Fiscal Year 2003 | Actual Fiscal Year 2004 | Actual Fiscal Year 2005 | Forecast Fiscal Year 2006 | Variance Increase (Decrease) |
|--------------------------|-------------------------------|-------------------------------|-------------------------------|---------------------------------|------------------------------------|
| Certified Salaries | \$23,128,000 | \$20,266,000 | \$19,223,000 | \$18,911,000 | (\$312,000) |
| Classified Salaries | 5,915,000 | 5,571,000 | 4,788,000 | 4,653,000 | (135,000) |
| Substitute Salaries | 1,451,000 | 1,141,000 | 844,000 | 643,000 | (201,000) |
| Supplemental Contracts | 358,000 | 249,000 | 197,000 | 182,000 | (15,000) |
| Severance Pay | 333,000 | 484,000 | 186,000 | 164,000 | (22,000) |
| Overtime | 95,000 | 42,000 | 47,000 | 49,000 | 2,000 |
| Other Salaries and Wages | 767,000 | 634,000 | 379,000 | 431,000 | 52,000 |
| Totals | <u>\$32,047,000</u> | <u>\$28,387,000</u> | <u>\$25,664,000</u> | <u>\$25,033,000</u> | <u>(\$631,000)</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.

Health care costs are based on the coverage terms of the health insurance contracts, the anticipated number of employees participating in the programs 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 16 percent rate increase effective July 1, 2005.

Workers' compensation is based on the School District's assigned rate and the actual salaries and wages paid in the previous calendar year. A decrease in workers' compensation is anticipated due to a decrease in the assigned rate and the calendar year wages.

Unemployment costs are based on the number of individuals whose employment with the School District ended and who qualify for benefits.

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 at least 25 years of service and be age 55 or older. Once notified of an employees retirement, the School District makes a severance payment to Bencor. 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 decreasing in fiscal year 2006 as fewer employees will retire before the end of the current contract.

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Presented below is a comparison of fiscal years 2003, 2004, 2005 and the forecast period:

| | Actual Fiscal Year 2003 | Actual Fiscal Year 2004 | Actual Fiscal Year 2005 | Forecast Fiscal Year 2006 | Variance Increase (Decrease) |
|---|-------------------------------|-------------------------------|-------------------------------|---------------------------------|------------------------------------|
| Employer's Retirement Health, Dental, Vision and Life Insurance | \$4,438,000 | \$4,071,000 | \$3,519,000 | \$3,392,000 | (\$127,000) |
| Workers' Compensation | 2,905,000 | 3,084,000 | 2,751,000 | 2,949,000 | 198,000 |
| Unemployment | 183,000 | 93,000 | 424,000 | 404,000 | (20,000) |
| Medicare | 241,000 | 251,000 | 227,000 | 188,000 | (39,000) |
| Bencor (Severance Pay) | 57,000 | 210,000 | 198,000 | 192,000 | (6,000) |
| Totals | \$8,187,000 | \$8,102,000 | \$7,542,000 | \$7,546,000 | \$4,000 |

C. Purchased Services

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

| | Actual Fiscal Year 2003 | Actual Fiscal Year 2004 | Actual Fiscal Year 2005 | Forecast Fiscal Year 2006 | Variance Increase (Decrease) |
|-------------------------------------|-------------------------------|-------------------------------|-------------------------------|---------------------------------|------------------------------------|
| Professional and Technical Services | \$2,241,000 | \$1,758,000 | \$1,473,000 | \$1,809,000 | \$336,000 |
| Property Services | 1,256,000 | 1,184,000 | 687,000 | 1,082,000 | 395,000 |
| Travel and Meeting Expenses | 46,000 | 23,000 | 23,000 | 21,000 | (2,000) |
| Communication Costs | 78,000 | 73,000 | 6,000 | 210,000 | 204,000 |
| Utility Services | 1,039,000 | 1,153,000 | 1,057,000 | 1,180,000 | 123,000 |
| Trade Services | 36,000 | 17,000 | 20,000 | 4,000 | (16,000) |
| Tuition Payments | 2,465,000 | 4,032,000 | 6,226,000 | 6,803,000 | 577,000 |
| Pupil Transportation | 293,000 | 329,000 | 332,000 | 325,000 | (7,000) |
| Other Purchased Services | 489,000 | 287,000 | 278,000 | 15,000 | (263,000) |
| Totals | \$7,943,000 | \$8,856,000 | \$10,102,000 | \$11,449,000 | \$1,347,000 |

The School District anticipates a \$336,000 increase in professional and technical services due to additional demolition costs. Property services will increase due to the School District charging insurance to a purchased service object code rather than other objects as in prior fiscal years. Communication costs are expected to increase due to a increased phone expenses and internet service fees. Tuition payments are anticipated to increase due to more students enrolling in community schools. Other purchased services will decrease due to students taking fewer field trips during the current fiscal year.

East Cleveland City School District - Cuyahoga County
 Summary of Significant Assumptions and Accounting Policies
 For the Fiscal Year Ending June 30, 2006

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 2003 | Actual Fiscal Year 2004 | Actual Fiscal Year 2005 | Forecast Fiscal Year 2006 | Variance Increase (Decrease) |
|--|-------------------------------|-------------------------------|-------------------------------|---------------------------------|------------------------------------|
| General Supplies, Library Books and Periodicals | \$434,000 | \$323,000 | \$422,000 | \$397,000 | (\$25,000) |
| Operations, Maintenance and Repair | 290,000 | 261,000 | 204,000 | 215,000 | 11,000 |
| Textbooks | 296,000 | 289,000 | 156,000 | 219,000 | 63,000 |
| Totals | <u>\$1,020,000</u> | <u>\$873,000</u> | <u>\$782,000</u> | <u>\$831,000</u> | <u>\$49,000</u> |

The increase in materials and supplies is due to the School District's need to replenish supplies and materials from the implementation of cost cutting measures by the School District in the prior fiscal year.

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. Capital outlay expenditures are forecasted in the amount of \$32,000. The decrease is due to demolition costs incurred by the School District during the prior fiscal year.

F. - Other Objects

Other object expenditures consist of dues and fees, insurance, judgements and taxes and assessments. The School District anticipates a \$343,000 decrease due to the School District posting insurance costs in this object in fiscal year 2005 while posting these costs to property services in fiscal year 2006 (see C – Purchased Services). During the prior fiscal year, the School District made property tax payments for special assessments on property that was acquired for the building of new schools that is not anticipated to recur in the forecast period.

G. - Operating Transfers and Advances Out

The School District expects to make transfers of \$1,000,000 from the general fund to the to the athletics, food service and adult education funds for operations. The general fund will advance out \$2,100,000 during the current fiscal year to cover deficits in other funds.

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, 2005 were \$1,928,000 and are forecasted at \$1,800,000 for June 30, 2006. The decrease is primarily due to the School District monitoring purchase orders more closely.

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Summary of Significant Assumptions and Accounting Policies
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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.

A. Textbooks and Instructional Materials

The set aside requirement for fiscal year 2006 is \$724,000. There was a carryover of \$521,000 in set-aside dollars from fiscal year 2005. The School District will have \$602,000 in qualifying expenditures for textbooks and instructional materials during the current fiscal year; therefore, a reserve of \$643,000 for textbooks and instructional materials is forecasted.

B. - Capital Acquisition and Improvements

The set aside amount for fiscal year 2006 is \$724,000. The School District anticipates offsets from property taxes from the permanent improvement and classroom facilities levies to exceed the set aside requirement amount for fiscal year 2006; therefore, no reserve for capital acquisition and improvements is forecasted.

D. Poverty Based Assistance (PBA)/Disadvantaged Pupil Impact Aid (DPIA)

At June 30, 2005, the School District had \$1,340,000 in unspent DPIA monies. The School District anticipates receiving \$5,395,000 in restricted PBA/DPIA monies during fiscal year 2006 and anticipates spending \$6,571,000 in PBA/DPIA expenditures during fiscal year 2005. Therefore, a reserve of \$164,000 is anticipated for PBA/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.

East Cleveland City School District - Cuyahoga County
Summary of Significant Assumptions and Accounting Policies
For the Fiscal Year Ending June 30, 2006

Note 12 - Financial Planning and Supervision Commission

On April 3, 2003, the School District was declared to be in a state of "Fiscal Emergency" by the Auditor of State. Legislation effective September 1996, permitted this declaration due to the School District's declining financial condition. In accordance with the law, a five-member Financial Planning and 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 financial recovery plan was adopted on June 16, 2005 and under State law is to be updated annually. The recovery plan includes the reduction of 32 staff members paid from the general fund. As of date of this forecast, the Commission has not updated the financial recovery plan.

Note 13 - Information Related to Periods Beyond the Forecast Period

Management is required to annually prepare and file a five-year financial plan with the Ohio Department of Education. The financial plan for the fiscal years 2006 through 2010 will be filed on May 24, 2006. Management believes that the following information, although it does not constitute a financial forecast, is necessary in order for users to make a meaningful analysis of the forecast results. The plan assumes the continued operation of the School District with no significant increases in revenues. The plan also assumes annual step increases of three percent, but no additional staff reductions, and a thirty percent increase in health care benefits for the fiscal years 2007 through 2010. With the stagnant growth in revenues and the increases in health care costs, the operating balance decreases from \$5,715,000 for fiscal year 2006 to (\$7,547,000) for fiscal year 2010. These amounts are contingent on the School District passing a 6.5 mill operating mill levy in fiscal year 2007, which will generate approximately \$1,600,000 annually. The recovery plan, dated June 16, 2005, does not address periods beyond fiscal year 2006.

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



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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
JUNE 29, 2006**