



Mary Taylor, CPA
Auditor of State

**EAST CLEVELAND CITY SCHOOL DISTRICT
CUYAHOGA COUNTY**

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INDEPENDENT ACCOUNTANTS' REPORT

Board of Education
East Cleveland City School District
Cuyahoga County
14305 Shaw Avenue Modular
East Cleveland, Ohio 44112-2707

We have audited the accompanying financial statements of the governmental activities, the business type activities, each major fund, and the aggregate remaining fund information of the East Cleveland City School District, Cuyahoga County, Ohio, (the District) as of and for the year ended June 30, 2003, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the District's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

The District failed to develop and implement procedures to record capital asset additions, deletions and construction-in-progress. The District had current year unrecorded additions of \$10.1 million, which represents 15% of assets of the governmental activities. In addition to these unrecorded additions, the District placed assets in use during the fiscal year that were previously recorded as construction in progress but failed to properly categorize or record depreciation expense for those assets, as well as, the District also did not remove from the capital asset listing the remaining value and accumulated depreciation for assets that should have been deleted. Other than unrecorded additions of \$10.1 million described above, we cannot reasonably determine the amount by which these would affect the governmental activities assets and net assets.

In our opinion, except for the effect of the misstatement to capital assets described in the preceding paragraph, financial statements referred to above present fairly, in all material respects, the financial position of the governmental activities, of the East Cleveland City School District, Cuyahoga County, Ohio, as of June 30, 2003, and the changes in its financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Also in our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business type activities, each major fund, and the aggregate remaining fund information of the East Cleveland City School District, Cuyahoga County, Ohio, as of June 30, 2003, and the respective changes in financial position and where applicable, cash flows, thereof and the respective budgetary comparison for the General Fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As described in Note 3 to the basic financial statements, the District implemented Governmental Accounting Standards Board Statement No. 34 for the year ended June 30, 2003.

In accordance with *Government Auditing Standards*, we have also issued our report dated January 7, 2009, on our consideration of the District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. While we did not opine on the internal control over financial reporting or on compliance, that report describes the scope of our testing of internal control over financial reporting and compliance and the results of that testing. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*. You should read it in conjunction with this report in assessing the results of our audit.

The Management's Discussion and Analysis is not a required part of the basic financial statements but is supplementary information accounting principles generally accepted in the United States of America requires. We have applied certain limited procedures, consisting principally of inquiries of management regarding the methods of measuring and presenting the required supplementary information. However, we did not audit the information and express no opinion on it.

We conducted our audit to opine on the financial statements that collectively comprise the District's basic financial statements. The federal awards receipts and expenditure schedule is required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is also not a required part of the basic financial statements. We subjected the federal awards receipts and expenditure schedule to the auditing procedures applied in the audit of the basic financial statements. In our opinion, this information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.



Mary Taylor, CPA
Auditor of State

January 7, 2009

East Cleveland City School District
Management's Discussion & Analysis
For the Fiscal Year Ended June 30, 2003
Unaudited

Our discussion and analysis of the East Cleveland City School District's (the "District") financial performance provides an overview of the District's financial activities for the fiscal year ended June 30, 2003. The intent of this discussion and analysis is to look at the District's financial performance as a whole; readers should also review the notes to the basic financial statements and financial statements to enhance their understanding of the District's financial performance.

Financial Highlights

Key financial highlights for 2003 are as follows:

- In total, net assets increased \$49,527,699. Net assets of governmental activities increased \$49,507,576, which represents a 184% increase from 2002. Net assets of business-type activities increased \$20,123 or 166% from 2002.
- General revenues accounted for \$106,901,624 in revenue or 89% of all revenues. Program specific revenues in the form of charges for services and operating grants and contributions accounted for \$13,019,108 or 11% of total revenues of \$119,920,732.
- The District had \$70,375,719 in expenses related to governmental activities; only \$12,981,671 of these expenses was offset by program specific charges for services, grants or contributions. General revenues supporting governmental activities (primarily taxes and unrestricted grants and entitlements) of \$106,901,924 were adequate to provide for these programs resulting in an increase to net assets from \$26,896,019 to \$76,403,595.
- The District had \$117,314 in expenses related to business-type activities; a total of \$37,437 was offset by program specific charges for services, grants and contributions. General revenue relates to a transfer from Governmental Activities of \$100,000. Total revenues were adequate to provide for these programs resulting in an increase to net assets of \$12,131.
- The District's major governmental funds are the general fund and the classroom facilities capital projects fund. The general fund had \$53,062,139 in revenues and other financing sources and \$45,473,790 in expenditures and other financing uses. The general fund's fund balance increased \$7,588,349 from \$(6,683,217) to \$905,132. The classroom facilities capital projects fund had \$11,274,310 in revenues and \$10,887,669 in expenditures. The classroom facilities capital projects fund balance increased \$386,641 from \$16,247,822 to \$16,634,463.

Using these Basic Financial Statements

This basic financial statement report consists of a series of financial statements and notes to those statements. The statements are organized so the reader can understand the District as a whole, and then proceed to provide an increasingly detailed look at specific financial activities.

East Cleveland City School District
Management's Discussion & Analysis
For the Fiscal Year Ended June 30, 2003
Unaudited

The *Statement of Net Assets* and *Statement of Activities* provide information about the activities of the whole District, presenting both an aggregate view of the District's finances and a longer-term view of those finances. Fund financial statements provide the next level of detail. For governmental funds, these statements tell how services were financed in the short-term as well as what remains for future spending. The fund financial statements also look at the District's most significant funds with all other non-major funds presented in total in one column. In the case of the District, the General Fund is by far the most significant fund, and along with the Classroom Facilities Capital Projects Fund are the only governmental funds reported as major funds.

Reporting the District as a Whole

The Statement of Net Assets and Statement of Activities

One of the most important questions asked about the District's finances is, "Is the District better off or worse off as a result of the year's activities?" The Statement of Net Assets and the Statement of Activities report information about the District as a whole and about its activities in a manner that helps to answer this question. These statements include all assets and liabilities using the accrual basis of accounting similar to the accounting used by private sector corporations. All of the current year's revenues and expenses are taken into consideration regardless of when cash is received or paid.

These two statements report the District's net assets and changes in them. The change in net assets provides the reader a tool to assist in determining whether the District's financial health is improving or deteriorating. The reader will need to consider other non-financial factors such as property tax base, current property tax laws, student enrollment growth, and facility conditions in arriving at their conclusion regarding the overall health of the District.

In the Statement of Net Assets and the Statement of Activities, the District is divided into two distinct kinds of activities:

Governmental Activities – Most of the District's programs and services are reported here including instruction, support services, operation and maintenance of plant, pupil transportation and extracurricular activities.

Business-type Activities – These services are provided on a charge for goods or services basis to recover all or a significant portion of the expenses of the goods or services provided. The District's uniform school supplies and the adult and community education operations are reported as business-type activities.

Reporting the District's Most Significant Funds

Fund Financial Statements

Our analysis of the District's major governmental funds begins on page 16. Some funds are required to be established by State statute, while many other funds are established by the District to help manage money for particular purposes and compliance with various grant provisions. The District's three types of funds, governmental, proprietary and fiduciary, use different accounting approaches as further described in the notes to the financial statements.

East Cleveland City School District
Management's Discussion & Analysis
For the Fiscal Year Ended June 30, 2003
Unaudited

Governmental Funds

Most of the District's activities are reported in governmental funds, which focus on how money flows into and out of those funds and the balances left at year-end available for spending in future periods. These funds are reported using an accounting method called modified accrual accounting, which measures cash and other financial assets that can readily be converted to cash. The governmental fund statements provide a detailed short-term view of the District's general government operations and the basic services it provides. Governmental fund information helps you determine whether there are more or less financial resources available to spend in the near future to finance the District's programs. The relationship (or differences) between governmental activities (reported in the Statement of Net Assets and the Statement of Activities) and governmental funds is reconciled in the basic financial statements.

Proprietary Funds

Proprietary funds use the accrual basis of accounting; the same as on the entity-wide statements, therefore the statements will essentially match the business-type activities portion of the entity-wide statements.

Fiduciary Funds

The District acts in a trustee capacity as an agent for individuals, private organizations, other governmental units and/or other funds. These activities are reported in an agency fund. The District's fiduciary activities are reported in separate Statements of Fiduciary Net Assets on page 26. These activities are excluded from the District's other financial statements because the assets cannot be utilized by the District to finance its operations.

The District as a Whole

The Statement of Net Assets provides the perspective of the District as a whole. This is the first year for government-wide financial statements using the full accrual basis of accounting; therefore a comparison with prior years is not available. A comparative analysis will be provided in future years when prior year information is available. The table below provides a summary of the District's net assets for 2003.

East Cleveland City School District
Management's Discussion & Analysis
For the Fiscal Year Ended June 30, 2003
Unaudited

	Net Assets	
	Governmental Activities <u>2003</u>	Business-Type Activities <u>2003</u>
Current Assets	\$ 86,532,515	\$ 45,756
Capital Assets	<u>27,511,432</u>	<u>1,383</u>
Total Assets	<u>114,043,947</u>	<u>47,139</u>
Current Liabilities	14,055,203	14,885
Long Term Liabilities	<u>23,585,149</u>	<u>-</u>
Total Liabilities	<u>37,640,352</u>	<u>14,885</u>
Net Assets:		
Invested in Capital Assets, Net of Related Debt	18,456,432	1,383
Restricted for:		
Capital Projects	63,576,933	-
Debt Service	1,278,193	-
Other Purposes	1,161,926	-
Unrestricted	<u>(8,069,889)</u>	<u>30,871</u>
Total Net Assets	<u>\$ 76,403,595</u>	<u>\$ 32,254</u>

In order to further understand what makes up the changes in net assets for the current year, the following table gives readers further details regarding the results of activities for the current year. However, since this is the first year the District has prepared financial statements following GASB 34, revenue and expense comparisons to 2003 are not available. In future years, when prior year information is available, a comparative analysis of government-wide data will be presented.

East Cleveland City School District
Management's Discussion & Analysis
For the Fiscal Year Ended June 30, 2003
Unaudited

	Governmental Activities <u>2003</u>	Business-Type Activities <u>2003</u>
Revenues		
Program Revenues		
Charges for Services	\$ 944,852	\$ 37,437
Operating Grants	<u>12,036,819</u>	<u>-</u>
Total Program Revenues	<u>12,981,671</u>	<u>37,437</u>
General Revenues		
Property Taxes	15,022,568	-
Grants and Entitlements	91,295,196	-
Investment Earnings	193,229	-
Miscellaneous	490,516	-
Sale of Capital Assets	115	-
Transfers	<u>(100,000)</u>	<u>100,000</u>
Total General Revenues	<u>106,901,624</u>	<u>100,000</u>
Total Revenues	<u>119,883,295</u>	<u>137,437</u>
Expenses		
Program Expenses		
Instruction		
Regular	21,289,825	-
Special	7,788,744	-
Vocational	2,028,014	-
Adult	148,746	-
Other	1,454,421	-
Support Services		
Pupil	2,844,497	-
Instructional Staff	3,254,532	-
Board of Education	313,808	-
Administration	5,242,531	-
Fiscal	928,563	-
Business	514,639	-
Operation & Maintenance	6,720,115	-
Pupil Transportation	1,064,386	-
Central	2,438,184	-
Food Service Operations	2,442,992	-
Community Services	858,379	-
Extracurricular Activities	566,770	-
Site Acquisition	10,079,936	-
Interest and Fiscal Charges	396,637	-
Uniform School Supplies	-	17,300
Adult and Community Education	<u>-</u>	<u>100,014</u>
Total Expenses	<u>70,375,719</u>	<u>117,314</u>
Change in Net Assets	<u>49,507,576</u>	<u>20,123</u>
Net Assets Beginning of Year	<u>26,896,019</u>	<u>12,131</u>
Net Assets End of Year	<u>\$ 76,403,595</u>	<u>\$ 32,254</u>

East Cleveland City School District
Management's Discussion & Analysis
For the Fiscal Year Ended June 30, 2003
Unaudited

Governmental Activities

Net assets of the District's governmental activities increased by \$49,507,576. Total governmental expenses of \$70,375,719 were offset by program revenues of \$12,981,671 and general revenues of \$106,901,624. Program revenues supported 18.5% of the total governmental expenses.

The primary sources of revenue for governmental activities are derived from property taxes and grants and entitlements. These two revenue sources represent 89.2% of total governmental revenue. Between these two revenue items, 100% of total governmental expenditures were funded.

The Statement of Activities shows the cost of program services and the charges for services and grants offsetting those services. The following table shows, for governmental activities, the total cost of services and the net cost of services for 2003. That is, it identifies the cost of these services supported by tax revenue and unrestricted State grants and entitlements.

	<u>Total Cost of Services 2003</u>	<u>Net Cost of Services 2003</u>
Program Expenses		
Instruction:		
Regular	\$ 21,289,825	\$ (14,616,772)
Special	7,788,744	(3,665,876)
Vocational	2,028,014	(1,788,487)
Adult/ Continuing	148,746	16,733
Other	1,454,421	(1,454,421)
Support Services:		
Pupil	2,844,497	(2,677,150)
Instructional Staff	3,254,531	(3,254,531)
Board of Education	313,808	(313,808)
Administration	5,242,532	(5,094,987)
Fiscal	928,563	(928,563)
Business	514,639	(514,639)
Operation & Maintenance	6,720,115	(5,531,604)
Pupil Transportation	1,064,386	(1,064,386)
Central Services	2,438,184	(2,405,584)
Food Service Operations	2,442,992	(2,307,669)
Community Services	858,379	(858,379)
Extracurricular Activities	566,770	(457,352)
Site Acquisition	10,079,936	(10,079,936)
Interest and Fiscal Charges	<u>396,637</u>	<u>(396,637)</u>
 Total Expenses	 \$ <u>70,375,719</u>	 \$ <u>(57,394,048)</u>

The dependence upon tax revenues during fiscal year 2003 for governmental activities is apparent, as 66% of 2003 instruction activities are supported through taxes and other general revenues. For all governmental activities, general revenue support was 82% in 2003. The District's taxpayers and intergovernmental funding, as a whole, are by far the primary support for District's students.

East Cleveland City School District
 Management's Discussion & Analysis
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 Unaudited

Business-Type Activities

Business-type activities include uniform supplies and adult and community education. These programs had revenues of \$137,437 and expenses of \$117,314 for fiscal year 2003. This resulted in an increase to net assets for the fiscal year of \$20, 123. Management assesses the performance of each of these funds to ensure that they are run efficiently.

The District's Funds

The District's governmental funds (as presented on the balance sheet on page 16) reported a combined fund balance of \$19,774,197, which is above last year's total of \$10,477,109. The fund balance at June 30, 2002 has been restated for the implementation of new accounting standards (See Note 3.B. to the basic financial statements). The schedule below indicates the fund balance and the total change in fund balance as of June 30, 2003 and 2002.

	<u>Fund Balance</u> <u>June 30, 2003</u>	<u>Fund Balance</u> <u>June 30, 2002</u>	<u>Increase</u> <u>(Decrease)</u>
General	\$ 905,132	\$ (6,683,217)	\$ 7,588,349
Classroom Facilities	16,634,463	16,247,822	386,641
Other Governmental	<u>2,234,602</u>	<u>912,503</u>	<u>1,322,099</u>
 Total	 <u>\$ 19,774,197</u>	 <u>\$ 10,477,108</u>	 <u>\$ 9,297,089</u>

The District's general fund balance increased by \$7,588,349, due primarily to an advance received from the State's Solvency Fund. The increase in property tax and other revenues was offset by an overall increase in expenditures. The table that follows assists in illustrating the financial activities of the general fund.

	<u>2003</u> <u>Amount</u>	<u>2002</u> <u>Amount</u>	<u>Percentage</u> <u>Change</u>
Revenues			
Taxes	\$ 12,839,236	\$ 10,795,423	15.9%
Interest Earnings	69,154	58,499	18.2%
Intergovernmental	31,313,277	30,223,108	3.6%
Other Revenue	<u>784,558</u>	<u>539,261</u>	45.5%
 Total	 <u>\$ 45,006,225</u>	 <u>\$ 41,616,291</u>	 8.1%

Property tax revenues increased by \$2,043,813 due to the county auditor making a greater amount available as an advance at June 30, 2003 compared to June 30, 2002. However, the District anticipates tax collections will be less in fiscal year 2004 than in fiscal year 2003.

East Cleveland City School District
 Management's Discussion & Analysis
 For the Fiscal Year Ended June 30, 2003
 Unaudited

Intergovernmental revenue increased \$1,090,169 or 3.6% from the prior year. This increase is attributed to an increase in the number of grants the District received in 2003. The increase in investment income is due to the district maintaining a higher average General Fund balances throughout fiscal year 2003 compared with fiscal year 2002. The increase in other revenue is attributed to an increase in tuition from the prior year due to a larger payment from a Cuyahoga County School District.

The table that follows assists in illustrating the expenditures of the general fund.

<u>Expenditures by Object</u>	<u>2003</u> <u>Amount</u>	<u>2002</u> <u>Amount</u>	<u>Percentage</u> <u>Change</u>
Instruction	\$ 26,973,693	\$ 24,464,428	10.3%
Support Services	17,436,886	17,214,650	1.3%
Capital Outlay	450,618	624,945	(28.0%)
Extracurricular Activities	<u>360,305</u>	<u>594,295</u>	(39.4%)
Total	<u>\$ 45,221,502</u>	<u>\$ 42,898,318</u>	5.4%

The most significant increase was in the area of instruction. This increase is due to an increase in wages and purchased services.

General Fund Budget Information

The District's budget is prepared in accordance with Ohio law and is based on the cash basis of accounting, utilizing cash receipts, disbursements and encumbrances. The most significant budgeted fund is the General Fund.

The District amended its revenue estimates to reflect greater than originally anticipated revenues from taxes, interest and state sources. The final budget for expenditures and other uses increased by \$30,407,665 over the original budget due to changes in several areas. The first area was in regular education instructional wage cost. These costs increased more than 2% from the prior year. The second area was in special education instructional wage cost. These costs increased more than 36% from the prior year. The third area was in vocational education instructional wage cost and these costs increased more than 9% from the prior year. Original plans were changed because of the projected fiscal year end deficit that resulted in the district being placed in fiscal emergency.

The District utilizes the five-year forecast as the original document from which to form the operating budget. After updating of the forecast for changes in revenue and expenditure assumptions the operating budget begins at the school level. Each school in the district receives an allocation augmented with resources for daily operation in the specific buildings. The site and department budgets are reviewed periodically to ensure management becomes aware of any significant variations during the year.

East Cleveland City School District
Management's Discussion & Analysis
For the Fiscal Year Ended June 30, 2003
Unaudited

Capital Assets

The District has \$27,512,815 invested in capital assets net of depreciation, with \$27,511,432 attributed to governmental activities. Acquisitions for governmental activities totaled \$271,393 and depreciation was \$856,302. The majority of the acquisitions were for furniture, equipment replacement, and building improvements throughout the District. Detailed information regarding capital asset activity is included in the notes to the basic financial statements (Note 8).

Debt

At June 30, 2003, the District had \$23,585,149 in outstanding long-term obligations. The District paid \$395,000 in principal on bonds outstanding payable during the fiscal year. Detailed information regarding long-term debt activity is included in the notes to the basic financial statements (Note 9).

The new State Solvency Loan has increased the debt service to ensure resources can be preserved as long as possible. The five-year forecast of the general fund and the five-year capital plan is utilized by management as a tool to manage resources effectively.

Current Financial Related Activities

The first challenge facing the District is based in the local economy. The District has experienced significant changes over the last 15 years. If the growth patterns in student population change so more additional students enter the District than currently anticipated, adjustments will have to be made to the financial models upon which assumptions have been made. Also, an economic slowdown could result in revenue forecasts having to be revised downward. Either of these scenarios could cause the District to scale down the educational program offerings or seek additional resources.

The last challenge facing the District is the future of state funding. On September 6, 2001 the Ohio Supreme Court found the Ohio School Funding system to be constitutional pending some modifications by the legislature. The District is unable to determine what effect, if any, this decision will have on future funding from the State. Additionally, the current State education budget has projected an increase in funding for the District, but the State is facing a deficit and uncertainty exists as to maintaining this increase into the future. During 2003, the District was placed in fiscal emergency and received a \$7,698,000 advance from the State Solvency Assistance Fund. The District will be repaying this advance over a two year period.

East Cleveland City School District
Management's Discussion & Analysis
For the Fiscal Year Ended June 30, 2003
Unaudited

Contacting the District's Financial Management

This financial report is designed to provide our citizen's, taxpayers, and investors and creditors with a general overview of the District's finances and to show the District's accountability for the money it receives. If you have questions about this report or need additional financial information contact Mary Ann Nowak, Treasurer, or by calling (216)268-6587.

East Cleveland City School District
Cuyahoga County
Statement of Net Assets

June 30, 2003

	<u>Governmental</u> <u>Activities</u>	<u>Business-Type</u> <u>Activities</u>	<u>Total</u>
Assets			
Cash and Cash Equivalents	\$ 7,693,551	\$ 50,756	\$ 7,744,307
Taxes Receivable	14,058,842	-	14,058,842
Accounts Receivable	86,080	-	86,080
Intergovernmental Receivable	49,160,364	-	49,160,364
Interfund Balances	5,000	(5,000)	-
Inventory Held for Resale	8,637	-	8,637
Restricted Assets:			
Cash and Cash Equivalents	15,520,041	-	15,520,041
Nondepreciable Capital Assets	13,300,769	-	13,300,769
Depreciable Capital Assets	<u>14,210,663</u>	<u>1,383</u>	<u>14,212,046</u>
 Total Assets	 <u>114,043,947</u>	 <u>47,139</u>	 <u>114,091,086</u>
Liabilities			
Accounts Payable	2,065,323	8,010	2,073,333
Accrued Wages and Benefits	4,925,239	6,875	4,932,114
Accrued Compensated Absences	141,436		141,436
Intergovernmental Payable	1,062,917		1,062,917
Deferred Revenue	5,821,605		5,821,605
Accrued Interest Payable	38,683		38,683
Long-Term Liabilities:			
Due Within One Year	1,258,616		1,258,616
Due In More Than One Year	<u>22,326,533</u>		<u>22,326,533</u>
 Total Liabilities	 <u>37,640,352</u>	 <u>14,885</u>	 <u>37,655,237</u>
Net Assets			
Invested in Capital Assets, Net of Related Debt	18,456,432	1,383	18,457,815
Restricted for:			
Capital Projects	63,576,933	-	63,576,933
Debt Service	1,278,193	-	1,278,193
Other Purposes	1,161,926	-	1,161,926
Unrestricted (Deficit)	<u>(8,069,889)</u>	<u>30,871</u>	<u>(8,039,018)</u>
 Total Net Assets	 \$ <u>76,403,595</u>	 \$ <u>32,254</u>	 \$ <u>76,435,849</u>

See Accompanying Notes

East Cleveland City School District
Cuyahoga County
Statement of Activities

For the Year Ended June 30, 2003

	Expenses	Program Revenues	
		Charges for Services	Operating Grants and Contributions
Governmental Activities			
Instruction:			
Regular	\$ 21,289,825	\$ 700,111	\$ 5,972,942
Special	7,788,744	-	4,122,868
Vocational	2,028,014	-	239,527
Adult	148,746	-	165,479
Other Instruction	1,454,421	-	-
Support Services:			
Pupil	2,844,497	-	167,347
Instructional Staff	3,254,531	-	-
Board of Education	313,808	-	-
Administration	5,242,532	-	147,545
Fiscal Services	928,563	-	-
Business	514,639	-	-
Operations and Maintenance - Plant	6,720,115	-	1,188,511
Pupil Transportation	1,064,386	-	-
Central	2,438,184	-	32,600
Food Service Operations	2,442,992	135,323	-
Community Services	858,379	-	-
Extracurricular Activities	566,770	109,418	-
Site Acquisition	10,079,936	-	-
Interest and Fiscal Charges	<u>396,637</u>	<u>-</u>	<u>-</u>
Total Governmental Activities	<u>70,375,719</u>	<u>944,852</u>	<u>12,036,819</u>
Business-Type Activities			
Uniform School Supplies	17,300	18,474	-
Adult and Community Education	<u>100,014</u>	<u>18,963</u>	<u>-</u>
Total Business-Type Activities	<u>117,314</u>	<u>37,437</u>	<u>-</u>
Totals	\$ <u>69,579,834</u>	\$ <u>982,289</u>	\$ <u>12,036,819</u>

General Revenues

- Property Taxes Levied for:
 - General Purpose
 - Debt Service
 - Capital Projects
- Grants and Entitlements not Restricted to Specific Programs
- Investment Earnings
- Miscellaneous
- Gain on Sale of Capital Assets
- Transfers
- Total General Revenues

Change in Net Assets

Net Assets Beginning of Year, Restated

Net Assets End of Year

See Accompanying Notes

<u>Primary Government</u>		
<u>Governmental</u> <u>Activities</u>	<u>Business -</u> <u>Type</u> <u>Activities</u>	<u>Total</u>
\$ (14,616,772)	\$ -	\$ (14,616,772)
(3,665,876)	-	(3,665,876)
(1,788,487)	-	(1,788,487)
16,733	-	16,733
(1,454,421)	-	(1,454,421)
(2,677,150)	-	(2,677,150)
(3,254,531)	-	(3,254,531)
(313,808)	-	(313,808)
(5,094,987)	-	(5,094,987)
(928,563)	-	(928,563)
(514,639)	-	(514,639)
(5,531,604)	-	(5,531,604)
(1,064,386)	-	(1,064,386)
(2,405,584)	-	(2,405,584)
(2,307,669)	-	(2,307,669)
(858,379)	-	(858,379)
(457,352)	-	(457,352)
(10,079,936)	-	(10,079,936)
(396,637)	-	(396,637)
<u>(57,394,048)</u>	<u>-</u>	<u>(57,394,048)</u>
-	1,174	1,174
<u>-</u>	<u>(81,051)</u>	<u>(81,051)</u>
<u>-</u>	<u>(79,877)</u>	<u>(79,877)</u>
<u>(57,394,048)</u>	<u>(79,877)</u>	<u>(57,473,925)</u>
13,955,501	-	13,955,501
938,662	-	938,662
128,405	-	128,405
91,295,196	-	91,295,196
193,229	-	193,229
490,516	-	490,516
115	-	115
<u>(100,000)</u>	<u>100,000</u>	<u>-</u>
<u>106,901,624</u>	<u>100,000</u>	<u>107,001,624</u>
49,507,576	20,123	49,527,699
<u>26,896,019</u>	<u>12,131</u>	<u>26,908,150</u>
\$ <u>76,403,595</u>	\$ <u>32,254</u>	\$ <u>76,435,849</u>

East Cleveland City School District
Cuyahoga County
Balance Sheet – Governmental Funds

June 30, 2003

	<u>General</u>	<u>Classroom Facilities</u>	<u>Nonmajor Governmental</u>	<u>Total</u>
Assets				
Cash and Cash Equivalents	\$ 2,820,994	\$ -	\$ 4,872,557	\$ 7,693,551
Receivables:				
Taxes	12,726,887	143,860	1,188,095	14,058,842
Accounts	73,442	-	12,368	85,810
Intergovernmental	8,589	48,815,624	336,151	49,160,364
Interfund	1,173,462	-	5,960	1,179,422
Inventory Held for Resale	-	-	8,637	8,637
Restricted Assets:				
Cash and Cash Equivalents	-	15,520,041	-	15,520,041
Total Assets	\$ <u>16,803,374</u>	\$ <u>64,479,525</u>	\$ <u>6,423,768</u>	\$ <u>87,706,667</u>
Liabilities				
Accounts Payable	\$ 702,226	\$ 913,199	\$ 449,628	\$ 2,065,053
Accrued Wages and Benefits	3,630,301	-	1,294,938	4,925,239
Accrued Compensated Absences	132,714	-	8,722	141,436
Intergovernmental Payable	813,352	-	249,565	1,062,917
Interfund Payable	-	-	1,174,422	1,174,422
Deferred Revenue	<u>10,619,649</u>	<u>46,931,863</u>	<u>1,011,891</u>	<u>58,563,403</u>
Total Liabilities	<u>15,898,242</u>	<u>47,845,062</u>	<u>4,189,166</u>	<u>67,932,470</u>
Fund Balance				
Reserved for Encumbrances	558,649	2,085,372	659,326	3,303,347
Reserved for Textbooks	601,192	-	-	601,192
Reserved for Property Taxes	2,107,238	21,335	176,204	2,304,777
Unreserved, Undesignated (Deficit):				
General Fund	(2,361,947)	-	-	(2,361,947)
Special Revenue Funds	-	-	466,752	466,752
Debt Service Fund	-	-	1,101,989	1,101,989
Capital Projects Funds	-	14,527,756	(169,669)	14,358,087
Total Fund Balance (Deficit)	<u>905,132</u>	<u>16,634,463</u>	<u>2,234,602</u>	<u>19,774,197</u>
Total Liabilities and Fund Balance	\$ <u>16,803,374</u>	\$ <u>64,479,525</u>	\$ <u>6,423,768</u>	\$ <u>87,706,667</u>

See Accompanying Notes

East Cleveland City School District

Reconciliation of Total Governmental Fund Balances to Net Assets of Governmental

June 30, 2003

Total Governmental Funds Balances \$ 19,774,197

Amounts Reported for Governmental Activities in the Statement of Net Assets are different because:

Capital Assets used in Governmental Activities are not Financial Resources and therefore are not reported in the Funds. 27,511,432

Other Long-Term Assets are not available to pay for current- period expenditures and therefore are deferred in the Funds.

Property and Other Taxes 5,932,460
Grants and Entitlements 46,809,338

52,741,798

In the Statement of Activities, Interest is accrued on outstanding bonds, whereas in Governmental Funds, an interest expenditure is reported when due. (38,683)

Long-Term Liabilities are not due and payable in the current period and are therefore not reported in the Funds.

General Obligation Bonds \$ (9,055,000)
Ohio State Loan (7,698,000)
Long term intergovernmental payable (401,072)
Compensated Absences (6,431,077)

(23,585,149)

Net Assets of Governmental Activities \$ 76,403,595

**East Cleveland City School District
Cuyahoga County**

Statement of Revenues, Expenditures and Changes in Fund Balances – Governmental Funds

For the Fiscal Year Ended June 30, 2003

	<u>General</u>	<u>Classroom Facilities</u>	<u>Nonmajor Governmental</u>	<u>Total</u>
Revenues				
Property Taxes	\$ 12,839,236	\$ 128,405	\$ 938,662	\$ 13,906,303
Intergovernmental	31,313,277	11,021,110	14,188,290	56,522,677
Tuition and Fees	700,111	-	-	700,111
Earnings on Investments	69,154	124,075	-	193,229
Food Service	-	-	135,323	135,323
Extracurricular Activities	1,730	-	106,891	108,621
Classroom Materials and Fees	797	-	-	797
Miscellaneous	81,920	720	407,875	490,515
Total Revenues	<u>45,006,225</u>	<u>11,274,310</u>	<u>15,777,041</u>	<u>72,057,576</u>
Expenditures				
Current:				
Instruction:				
Regular	18,504,706	-	3,102,905	21,607,611
Special	5,265,524	-	2,376,393	7,641,917
Vocational	1,774,888	-	186,919	1,961,807
Adult/Continuing	-	-	148,746	148,746
Other	1,428,575	-	-	1,428,575
Support Services:				
Pupils	2,003,803	-	831,548	2,835,351
Instructional Staff	1,774,323	-	1,505,907	3,280,230
Board of Education	302,422	-	-	302,422
Administration	4,048,538	-	904,238	4,952,776
Fiscal Services	904,626	71,248	22,444	998,318
Business	531,184	-	-	531,184
Operations and Maintenance of Plant	4,572,385	924,842	900,324	6,397,551
Pupil Transportation	1,209,867	-	25,917	1,235,784
Central Services	2,068,698	-	346,045	2,414,743
Operation of Non-Instructional Services	21,040	-	3,212,298	3,233,338
Extracurricular Activities	360,305	-	193,810	554,115
Capital Outlay	450,618	9,891,579	-	10,342,197
Debt Service:				
Principal	-	-	395,000	395,000
Interest and Fiscal Charges	-	-	398,257	398,257
Total Expenditures	<u>45,221,502</u>	<u>10,887,669</u>	<u>14,550,751</u>	<u>70,659,922</u>

Continued

See Accompanying Notes

East Cleveland City School District
Cuyahoga County

Statement of Revenues, Expenditures and Changes in Fund Balances – Governmental Funds (continued)

For the Year Ended June 30, 2003

	<u>General</u>	<u>Classroom Facilities</u>	<u>Nonmajor Governmental</u>	<u>Total</u>
Excess of Revenues Over (Under)				
Expenditures	<u>(215,277)</u>	<u>386,641</u>	<u>1,226,290</u>	<u>1,397,654</u>
Other Financing Sources (Uses)				
Advance from State Solvency Assistance	7,698,000	-	-	7,698,000
Proceeds from Sale of Assets	113	-	-	113
Refund of Prior Year Expenditures	357,801	-	1,728	359,529
Refund of Prior Years Receipts	(2,288)	-	(55,919)	(58,207)
Transfers-In	-	-	150,000	150,000
Transfers-Out	<u>(250,000)</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total Other Financing sources (Uses)	<u>7,803,626</u>	<u>-</u>	<u>95,809</u>	<u>7,899,435</u>
Net Change in Fund Balance	7,588,349	386,641	1,322,099	9,297,089
Fund Balance (Deficit) at Beginning of Year	<u>(6,683,217)</u>	<u>16,247,822</u>	<u>912,503</u>	<u>10,477,108</u>
Fund Balance (Deficit) at End of Year	\$ <u><u>905,132</u></u>	\$ <u><u>16,634,463</u></u>	\$ <u><u>2,234,602</u></u>	\$ <u><u>19,774,197</u></u>

See Accompanying Notes

East Cleveland City School District

Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances of Governmental Funds to the Statement of Activities

For The Fiscal Year Ended June 30, 2003

Net Change in Fund Balances – Total Governmental Funds \$ 9,297,089

Amounts Reported for Governmental Activities in the Statement of Activities are different because:

Governmental Funds report Capital Outlay as expenditures. However in the Statement of Activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which depreciation exceeded capital outlays in the current period.

Capital Outlay	\$ 271,393	
Depreciation	<u>(856,302)</u>	(584,909)

Revenues in the Statement of Activities that do not provide current financial resources are not reported as revenues in the Funds.

Property and Other Taxes	1,116,265	
Grants and Entitlements	<u>46,809,338</u>	47,925,603

Other Financing Sources in the Governmental Funds that increase Long-Term Liabilities in the Statement of Net Assets. These sources were attributed to proceeds of notes. (7,698,000)

Repayment of Bond and capital lease Principal is an expenditure in the Governmental Funds, but the repayment reduces Long-Term Liabilities in the Statement of Net Assets. 395,000

Some expenses reported in the Statement of Activities do not require the use of current financial resources and therefore are not reported as expenditures in Governmental Funds.

Intergovernmental payable	41,727	
Accrued interest on bonds	1,620	
Compensated Absences	<u>129,446</u>	172,793

Change in Net Assets of Governmental Activities \$ 49,507,576

See Accompanying Note

East Cleveland City School District

Cuyahoa County

Combined Statement Of Revenues, Expenditures And Changes In Fund Balances – Budget (Non-GAAP Budgetary Basis) And Actual – General Fund

For The Year Ended June 30, 2003

	Budget		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues				
From local sources:				
Property taxes	\$ 11,845,350	\$ 11,882,104	\$ 10,731,998	\$ (1,150,106)
Tuition and fees	573,545	698,868	700,111	1,243
Earnings on investments	42,363	51,619	51,711	92
Extracurricular activities	1,417	1,727	1,730	3
Classroom materials and fees	653	796	797	1
Miscellaneous	47,733	58,163	58,266	103
From state sources:				
Unrestricted grants-in-aid	23,297,084	28,387,637	28,438,140	50,503
Restricted grants-in-aid	2,066,717	2,518,307	2,522,787	4,480
From federal sources:				
Unrestricted grants-in-aid	<u>284,281</u>	<u>346,398</u>	<u>347,014</u>	<u>616</u>
Total revenues	<u>38,159,143</u>	<u>43,945,619</u>	<u>42,852,554</u>	<u>(1,093,065)</u>
Expenditures				
Current:				
Instruction:				
Regular	7,666,191	19,377,834	18,788,779	589,055
Special	2,105,627	5,322,394	5,160,602	161,792
Vocational	724,275	1,830,750	1,775,098	55,652
Other	582,887	1,473,363	1,428,575	44,788
Support services:				
Pupils	836,698	2,114,921	2,050,631	64,290
Instructional staff	728,651	1,841,811	1,785,823	55,988
Board of Education	256,777	649,054	629,324	19,730
Administration	1,689,177	4,269,732	4,139,939	129,793
Fiscal services	401,118	1,013,905	983,084	30,821
Business	230,234	581,964	564,273	17,691
Operation and maintenance of plant	2,092,062	5,288,105	5,127,355	160,750
Pupil transportation	528,508	1,335,911	1,295,301	40,610
Central services	875,061	2,211,891	2,144,653	67,238
Operation of non-instructional services	1,927	4,870	4,722	148
Extracurricular activities:				
Academic & subject oriented activities	25,456	64,345	62,389	1,956
Sports oriented	142,697	360,695	349,730	10,965
Co-curricular activities	20,914	52,864	51,257	1,607
Capital outlay	<u>205,953</u>	<u>374,250</u>	<u>507,763</u>	<u>(133,513)</u>
Total expenditures	<u>19,114,213</u>	<u>48,168,659</u>	<u>46,849,298</u>	<u>1,319,361</u>

(Continued)

See Accompanying Notes

East Cleveland City School District
Cuyahoga County

Combined Statement Of Revenues, Expenditures And Changes In Fund Balances – Budget (Non-GAAP Budgetary Basis) And Actual – General Fund (continued)

For The Year Ended June 30, 2003

	<u>Budget</u>		<u>Actual</u>	Variance with Final Budget Postive (Negative)
	<u>Original</u>	<u>Final</u>		
Excess of revenues over (under)				
Expenditures	<u>19,044,930</u>	<u>(4,223,040)</u>	<u>(3,996,744)</u>	<u>226,296</u>
Other financing sources (uses)				
Proceeds from sale of assets	92	112	113	1
Advance from state solvency	6,306,353	7,684,329	7,698,000	13,671
Refund of prior year expenditures	356,896	357,166	357,801	635
Refund of prior year receipts	(922)	(2,330)	(2,288)	42
Advances – in	356,896	434,879	435,653	774
Advances – out	(784,153)	(1,982,103)	(1,946,473)	35,630
Transfers – out	<u>(100,715)</u>	<u>(254,576)</u>	<u>(250,000)</u>	<u>4,576</u>
Total other financing sources (uses)	<u>6,134,447</u>	<u>6,237,477</u>	<u>6,292,806</u>	<u>55,329</u>
Change in Fund Balance	25,179,377	2,014,437	2,296,062	281,625
Cash Fund Balance, Beginning of Year	521,933	521,933	521,933	-
Prior Year Encumbrances Appropriated	<u>600,198</u>	<u>600,198</u>	<u>600,198</u>	<u>-</u>
Total Cash Fund Balance, End of Year	\$ <u>26,301,508</u>	\$ <u>3,136,568</u>	\$ <u>3,418,193</u>	\$ <u>281,625</u>

See Accompanying Notes

East Cleveland City School District
Cuyahoga County
Statement of Fund Net Assets – Proprietary Funds

June 30, 2003

	<u>Nonmajor Enterprise Funds</u>
Assets	
Current Assets:	
Cash and Cash Equivalents	\$ 50,756
Noncurrent Assets:	
Capital Assets, net of Accumulated Depreciation	<u>1,383</u>
Total Assets	<u>52,139</u>
Liabilities	
Accounts Payable	8,010
Accrued Wages and Benefits	6,875
Interfund Payable	<u>5,000</u>
Total Liabilities	<u>19,885</u>
Net Assets	
Invested in Capital Assets, Net of Related Debt	1,383
Unrestricted	<u>30,871</u>
Total Net Assets	\$ <u>32,254</u>

See Accompanying Notes

East Cleveland City School District
Cuyahoga County

Statement of Revenues, Expenses and Changes in Fund Net Assets – Proprietary Funds

For The Year Ended June 30, 2003

	Nonmajor Enterprise Funds
Operating Revenues	
Tuition	\$ 18,963
Classroom Materials and Fees	<u>18,474</u>
Total Operating Revenues	37,437
Operating Expenses	
Salaries and Wages	60,377
Fringe Benefits	13,140
Contractual Services	20,126
Supplies and Materials	22,507
Depreciation Expense	<u>1,164</u>
Total Operating Expenses	<u>117,314</u>
Operating Loss	(79,877)
Non-Operating Revenue (Expense)	
Transfers – In	<u>100,000</u>
Net Income	20,123
Net Assets at Beginning of Year	<u>12,131</u>
Net Assets at End of Year	\$ <u>32,254</u>

See Accompanying Notes

East Cleveland City School District
Cuyahoga County
Statement of Cash Flows – Proprietary Funds

For The Year Ended June 30, 2003

	Nonmajor Enterprise Funds
Increase (Decrease) in Cash and Cash Equivalents	
Cash Flows From Operating Activities	
Cash Received from Customers	\$ 18,474
Cash Received from Tuition Payments	18,963
Cash Payments to Suppliers for Goods and Services	(36,811)
Cash Payments to Employees for Services	(60,377)
Cash Payments for Employee Benefits	<u>(13,140)</u>
Net Cash Used for Operating Activities	<u>(72,891)</u>
Cash Flows from Non-capital Financing Activities	
Transfers – In	<u>100,000</u>
Net Cash Provided by Non-capital Financing Activities	<u>100,000</u>
Net Increase in Cash and Cash Equivalents	27,109
Cash and Cash Equivalents at Beginning of Year	<u>23,647</u>
Cash and Cash Equivalents at End of Year	\$ <u><u>50,756</u></u>
<u>Reconciliation of Operating Loss to Net Cash Used for Operating Activities</u>	
Operating Loss	\$ (79,877)
Adjustments:	
Increase (Decrease) in Liabilities:	
Depreciation	1,164
Accounts Payable	8,010
Accrued Wages and Benefits	(79)
Intergovernmental Payable	<u>(2,109)</u>
Total Adjustments	<u>6,986</u>
Net Cash Used for Operating Activities	\$ <u><u>(72,891)</u></u>

See Accompanying Notes

East Cleveland City School District
Cuyahoga County
Statement of Cash Flows – Fiduciary Funds

June 30, 2003

	Fiduciary Funds
Assets	
Cash and Cash Equivalents	\$ <u>52,837</u>
Liabilities	
Intergovernmental Payable	\$ 52,567
Due to Others	<u>270</u>
Total Liabilities	\$ <u>52,837</u>

See Accompanying Notes

East Cleveland City School District

Cuyahoga County

Notes to the Basic Financial Statements

June 30, 2003

Note 1: Description of the School District and Reporting Entity

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

The East Cleveland City School District (School District) is a body politic and corporate established for the purpose of exercising the rights and privileges conveyed to it by the constitution and laws of the State of Ohio. The School District operates under a locally-elected five-member Board form of government. Each member is elected to a four-year term. The School District provides educational services as mandated by State and/or federal agencies. This Board of Education controls the School District's nine instructional/support facilities staffed by 275 classified employees and 530 certificated full-time teaching personnel who provide services to 5,401 students and other community members.

Reporting Entity

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

Nonpublic Schools Within the School District boundaries, there are a couple of nonpublic schools. Current State legislation provides funding to these non-public schools. These monies are received and disbursed by the School District on behalf of the non-public school by the Treasurer of the School District, as directed by the non-public school. These transactions are reported as a governmental activity of the School District

Component units are legally separate organizations for which the School District is financially accountable. The School District is financially accountable for an organization if the School District appoints a voting majority of the organization's governing board and (1) the School District is able to significantly influence the programs or services performed or provided by the organization; or (2) the School District is legally entitled to or can otherwise access the organization's resources; the School District is legally obligated or has otherwise assumed the responsibility to finance the deficits of or provides financial support to, the organization; or the School District is obligated for the debt of the organization. Component units may also include organizations that are fiscally dependent on the School District in that the School District approves the budget, the issuance of their debt or the levying of their taxes. The School District has no component units.

The School District is associated with two jointly-governed organizations, a related organization and an insurance purchasing pool. These organizations are Lakeshore Northeast Ohio Computer Association (LNOCA), the Ohio Schools Council Association, the East Cleveland Public Library and the Ohio School Boards Association Workers' Compensation Group Rating Plan. These organizations are presented in Notes 17, 18, and 19 to the general purpose financial statements.

East Cleveland City School District

Notes to the Basic Financial Statements

June 30, 2003

Note 2: Summary of Significant Accounting Policies

The financial statements of East Cleveland City School District have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The School District also applies Financial Accounting Standards Board (FASB) statements and interpretations issued after November 30, 1989, to its proprietary activities provided they do not conflict with or contradict GASB pronouncements. The more significant of the School District's accounting policies are described below.

A. Fund Accounting

The School District uses funds to maintain its financial records during the fiscal year. Fund accounting is designed to demonstrate legal compliance and to aid management by segregating transactions related to certain School District functions or activities. A fund is defined as a fiscal and accounting entity with a self-balancing set of accounts. The various funds of the School District are grouped into the categories governmental, proprietary, and fiduciary.

Governmental Funds

Governmental funds focus on the sources, uses, and balances of current financial resources. Expendable assets are assigned to the various governmental funds according to the purposes for which they may or must be used. Current liabilities are assigned to the fund from which they will be paid. The difference between governmental fund assets and liabilities is reported as fund balance. The following are the District's major governmental funds:

General Fund – The General Fund is used to account for all financial resources, except those required to be accounted for in another fund. The general fund is available to the School District for any purpose provided it is expended or transferred according to the general laws of Ohio.

Capital Projects Fund – The Capital Projects Fund is used to account for intergovernmental receipts, property taxes and interest received and expended in connection with the contracts entered into by the School District and the Ohio School Facilities Commission for the building and equipping of new classroom facilities.

The other governmental funds of the School District account for grants and other resources, debt service, and capital projects of the School District whose uses are restricted to a particular purpose.

East Cleveland City School District

Notes to the Basic Financial Statements

June 30, 2003

Note 2: Summary of Significant Accounting Policies (continued)

A. Fund Accounting (continued)

Proprietary Funds

The proprietary fund focuses on the determination of the changes in net assets, financial position, and cash flows. Proprietary funds are classified as enterprise or internal service.

Enterprise Funds – The enterprise funds are used to account for operations (a) that are financed and operated in a manner similar to private business enterprises – where the intent of the governing body is that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges; or (b) where the governing body has decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes. The District has three enterprise funds to account for uniform supplies and adult and community education. The District has no internal service funds.

Fiduciary Funds

Fiduciary fund reporting focuses on net assets and changes in net assets. The fiduciary fund category is split into four classifications: pension trust funds, investment trust funds, private-purpose trust funds, and agency funds. Trust funds are used to account for assets held by the School District under a trust agreement for individuals, private organizations, or other governments and are therefore not available to support the School District's own programs. The District has no trust funds. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. The District's only agency fund account for resources that belong to the student bodies of the various schools, accounting for sales and other revenue generating activity.

B. Measurement Focus

The School District's basic financial statements consist of government-wide statements, including a statement of net assets and a statement of activities, and fund financial statements, which provide a more detailed level of financial information.

Government-wide Financial Statements

The statement of net assets and the statement of activities display information about the School District as a whole. These statements include the financial activities of the primary government, except for fiduciary funds. The statements distinguish between those activities of the School District that are governmental and those that are considered business-type activities.

The government-wide statements are prepared using the economic resources measurement focus. This is the same approach used in the preparation of the proprietary fund financial statements but differs from the manner in which governmental fund financial statements are prepared. Governmental fund financial statements therefore include a reconciliation with brief explanations to better identify the relationship between the government-wide statements and the statements for governmental funds.

East Cleveland City School District

Notes to the Basic Financial Statements

June 30, 2003

Note 2: Summary of Significant Accounting Policies (continued)

B. Measurement Focus (continued)

Government-wide Financial Statements (continued)

The government-wide statement of activities presents a comparison between direct expenses and program revenues for each segment of the business-type activities of the School District and for each function or program of the School District's governmental activities. Direct expenses are those that are specifically associated with a service, program, or department and therefore clearly identifiable to a particular function. Program revenues include charges paid by the recipient of the goods or services offered by the program and grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues, which are not classified as program revenues, are presented as general revenues of the School District, with certain limited exceptions. The comparison of direct expenses with program revenues identifies the extent to which each business segment or governmental function is self-financing or draws from the general revenues of the School District.

Fund Financial Statements

Fund financial statements report detailed financial information of the School District. The focus of governmental and enterprise fund financial statements is on major funds rather than reporting funds by type. Each major fund is presented in a separate column. Nonmajor funds are aggregated and presented in a single column. Internal service funds are combined and the totals are presented in a single column on the face of the proprietary fund statements. Fiduciary funds are reported by fund type.

The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. All governmental funds are accounted for using a flow of current financial resources measurement focus. The financial statements for governmental funds are a balance sheet, which generally includes only current assets and current liabilities, and a statement of revenues, expenditures and changes in fund balances, which reports on the sources (i.e., revenues and other financing sources) and uses (i.e., expenditures and other financing uses) of current financial resources.

All proprietary funds are accounted for on a flow of economic resources measurement focus. With this measurement focus, all assets and all liabilities associated with the operation of these funds are included on the statement of net assets. The statement of changes in fund net assets presents increases (i.e., revenues) and decreases (i.e., expenses) in net total assets. The statement of cash flows provides information about how the School District finances and meets the cash flow needs of its proprietary activities.

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operation. The principal operating revenues of the District's internal service fund is charges for sales and services. Operating expenses for internal service funds include the cost of sales and services and administrative expenses. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

Agency funds do not report a measurement focus as they do not report operations.

East Cleveland City School District

Notes to the Basic Financial Statements

June 30, 2003

Note 2: Summary of Significant Accounting Policies (continued)

C. Basis of Accounting

Basis of accounting determines when transactions are recorded in the financial records and reported on the financial statements. Government-wide financial statements are prepared using the accrual basis of accounting. Proprietary and fiduciary funds also use the accrual basis of accounting. Governmental funds use the modified accrual basis of accounting. Differences in the accrual and modified accrual basis of accounting arise in the recognition of revenue, the recording of deferred revenue and in the presentation of expenses versus expenditures.

Revenues – Exchange and Nonexchange Transactions

Revenue resulting from exchange transactions, in which each party gives and receives essentially equal value, is recorded on the accrual basis when the exchange takes place. On a modified accrual basis, revenue is recorded in the fiscal year in which the resources are measurable and become available. “Measurable” means the amount of the transaction can be determined and “available” means collectible within the current fiscal year or soon enough thereafter to be used to pay liabilities of the current fiscal year. For the School District, available means expected to be received within sixty days of fiscal year end.

Nonexchange transactions, in which the School District receives value without directly giving equal value in return, include property taxes, grants, entitlements, and donations. On an accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied. Revenue from grants, entitlements, and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the fiscal year when use is first permitted; matching requirements, in which the School District must provide local resources to be used for a specified purpose; and expenditure requirements, in which the resources are provided to the School District on a reimbursement basis. On a modified accrual basis, revenue from non-exchange transactions must also be available before it can be recognized.

Under the modified accrual basis, the following revenue sources are considered to be both measurable and available at fiscal year end: property taxes available as an advance, grants, investment earnings, tuition, and student fees.

Deferred Revenue

Deferred revenue arises when assets are recognized before revenue recognition criteria have been satisfied.

Property taxes and delinquent property taxes for which there is an enforceable legal claim as of June 30, 2003, but which were levied to finance fiscal year 2004 operations, have been recorded as deferred revenue. Grants and entitlements received before the eligibility requirements are met are also recorded as deferred revenue.

On governmental fund financial statements, receivables that will not be collected within the available period have also been reported as deferred revenue.

East Cleveland City School District

Notes to the Basic Financial Statements

June 30, 2003

Note 2: Summary of Significant Accounting Policies (continued)

C. Basis Of Accounting (continued)

Expenditures/Expenses

On the accrual basis of accounting, expenses are recognized at the time they are incurred. The fair value of donated commodities used during the year is reported in the operating statement as an expense with a like amount reported as donated commodities revenue. Unused donated commodities are reported as donated commodities revenue. The measurement focus of governmental fund accounting is on decreases in net financial resources (expenditures) rather than expenses. Expenditures are generally recognized in the accounting period in which the related fund liability is incurred, if measurable. Allocations of cost, such as depreciation and amortization, are not recognized in governmental funds.

D. Budgets And Budgetary Accounting

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

All funds, other than agency funds, are legally required to be budgeted and appropriated. The legal level of budgetary control is at the fund level. Any budgetary modifications at this level may only be made by resolution of the Board of Education.

Tax Budget

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

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

Estimated Resources

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

East Cleveland City School District

Notes to the Basic Financial Statements

June 30, 2003

Note 2: Summary of Significant Accounting Policies (continued)

D. Budgets and Budgetary Accounting (continued)

On or about July 1, the certificate is amended to include any unencumbered cash balances from the preceding year. The certificate may be further amended during the year if projected increases or decreases in revenue are identified by the School District Treasurer. The amounts reported in the budgetary statement reflect the amounts in the final amended certificate issued during fiscal year 2003.

Appropriations

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

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

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

Encumbrances

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

East Cleveland City School District

Notes to the Basic Financial Statements

June 30, 2003

Note 2: Summary of Significant Accounting Policies (continued)

D. Budgets and Budgetary Accounting (continued)

Lapsing of Appropriations

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

E. Cash and Cash Equivalents

To improve cash management, cash received by the School District is pooled. Interest in the pool is presented as “equity in pooled cash and cash equivalents” on the financial statements.

During fiscal year 2003, investments were limited to Victory Federal Money Market and STAROhio, the State Treasurer’s Investment Pool, and federal government agency securities. All investments of the School District had a maturity of two years or less. Investments are reported at fair value which is based on quoted market prices.

The School District has invested funds in the State Treasury Assets Reserve (STAROhio) during fiscal year 2003. STAROhio is an investment pool managed by the State Treasurer’s Office which allows governments within the State to pool their funds for investment purposes. STAROhio is not registered with the SEC as an investment company, but does operate in a manner consistent with Rule 2a7 of the Investment Company Act of 1940. Investments in STAROhio are valued at STAROhio’s share price which is the price the investment could be sold for on June 30, 2003.

Following Ohio statutes, the Board of Education has, by resolution, specified the funds to receive an allocation of interest. Interest revenue credited to the General Fund during fiscal year 2003 amounted to \$69,154.

For presentation on the financial statements, investments of the cash management pool and investments with an original maturity of three months or less at the time they are purchased by the School District are considered to be cash equivalents. Investments with an original maturity of more than three months that are not made from the pool are considered to be investments.

East Cleveland City School District

Notes to the Basic Financial Statements

June 30, 2003

Note 2: Summary of Significant Accounting Policies (continued)

F. Restricted Assets

Assets are reported as restricted when limitations on their use change in nature or normal understanding of the availability of the asset. Such constraints are either imposed by creditors, contributors, grantors, laws of other governments, or imposed by enabling legislation. Restricted assets in the General Fund include amounts required by State statute to be set aside for textbooks and instructional materials. See Note 14 for additional information regarding set-asides.

G. Prepaid Items

Payments made to vendors for services that will benefit periods beyond June 30, 2003, are recorded as prepaid items using the consumption method. A current asset for the prepaid amount is recorded at the time of the purchase and an expenditure/expense is reported in the year in which services are consumed.

H. Inventory

On government-wide financial statements, inventories are presented at cost on a first-in, first-out basis and are expended/expensed when used. On fund financial statements, inventories of governmental funds are stated at cost, while inventories of proprietary funds are stated at the lower of cost or market. For all funds, cost is determined on a first-in, first-out basis and is expensed/expended when used.

Inventories consist of donated food, purchased food, school supplies held for resale and materials and supplies held for consumption.

I. Capital Assets

General capital assets are those assets not specifically related to activities reported in the proprietary funds. These assets generally result from expenditures in the governmental funds. These assets are reported in the governmental activities column of the government-wide statement of net assets but are not reported on the fund financial statements. Capital assets utilized by the enterprise fund are reported both in the business-type activities column of the government-wide statement of net assets and in the fund.

All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and reductions during the year. Donated fixed assets are recorded at their fair market values as of the date received. The School District maintains a capitalization threshold of \$500. The School District does not possess any infrastructure. Improvements are capitalized; the costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not capitalized. Interest incurred during the construction of capital assets utilized by the enterprise fund is also capitalized.

East Cleveland City School District

Notes to the Basic Financial Statements

June 30, 2003

Note 2: Summary of Significant Accounting Policies (continued)

I. Capital Assets (continued)

All reported capital assets, other than land, are depreciated. Depreciation is computed using the straight-line method over the following useful lives:

Description	<u>Estimated Lives</u>
Land Improvements	15 - 50 years
Buildings and Buildings Improvements	15 - 50 years
Furniture and Fixtures	5 - 20 years
Vehicles	5 - 15 years
Equipment	10 years

J. Interfund Balances

On fund financial statements, receivables and payables resulting from short-term interfund loans are classified as “interfund receivables/payables.” These amounts are eliminated in the governmental and business-type activities columns of the statement of net assets, except for any net residual amounts due between governmental and business-type activities, which are presented as internal balances.

K. Compensated Absences

Vacation benefits are accrued as a liability as the benefits are earned if the employees’ rights to receive compensation are attributable to services already rendered and it is probable that the School District will compensate the employees for the benefits through paid time off or some other means. The School District records a liability for accumulated unused vacation time when earned for all employees with more than one year of service.

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

The entire compensated absence liability is reported on the government-wide financial statements.

For governmental fund financial statements, the current portion of unpaid compensated absences is the amount that is normally expected to be paid using expendable available financial resources. These amounts are recorded in the account “compensated absences payable” in the fund from which the employees who have accumulated leave are paid. The noncurrent portion of the liability is not reported. In the enterprise fund, the entire amount of compensated absences is reported as a fund liability.

East Cleveland City School District

Notes to the Basic Financial Statements

June 30, 2003

Note 2: Summary of Significant Accounting Policies (continued)

L. Accrued Liabilities and Long-Term Obligations

All payables, accrued liabilities and long-term obligations are reported in the government-wide financial statements, and all payables, accrued liabilities and long-term obligations payable from the enterprise fund are reported on the enterprise fund financial statements.

In general, governmental fund payables and accrued liabilities that once incurred, are paid in a timely manner and in full from current financial resources, are reported as obligations of the funds. However, claims and judgments, compensated absences, special termination benefits and contractually required pension contributions that will be paid from governmental funds are reported as a liability in the fund financial statements only to the extent that they are due for payment during the current year. Long-term loans are recognized as a liability on the governmental fund financial statements when due.

M. Fund Balance Reserves

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

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

N. Net Assets

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction, or improvement of those assets. Net assets are reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the School District or through external restrictions imposed by creditors, grantors or laws, or regulations of other governments.

The School District applies restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net assets are available.

East Cleveland City School District

Notes to the Basic Financial Statements

June 30, 2003

Note 2: Summary of Significant Accounting Policies (continued)

O. Operating Revenues And Expenses

Operating revenues are those revenues that are generated directly from the primary activity of the proprietary funds. For the School District, these revenues are tuition and miscellaneous for adult education and youths and preschool classes, and sales and miscellaneous uniform school supplies. Operating expenses are necessary costs incurred to provide the good or service that is the primary activity of the fund. Revenues and expenditures not meeting this definition are reported as non-operating.

P. Interfund Activity

Transfers between governmental and business-type activities on the government-wide statements are reported in the same manner as general revenues.

Exchange transactions between funds are reported as revenues in the seller funds and as expenditures/expenses in the purchaser funds. Flows of cash or goods from one fund to another without a requirement for repayment are reported as interfund transfers. Interfund transfers are reported as other financing sources/uses in governmental funds and after nonoperating revenues/expenses in the food service enterprise fund. Repayments from funds responsible for particular expenditures/expenses to the funds that initially paid for them are not presented on the financial statements.

Q. Extraordinary and Special Items

Extraordinary items are transactions or events that are both unusual in nature and infrequent in occurrence. Special items are transactions or events that are within the control of the School District and that are either unusual in nature or infrequent in occurrence. Neither type of transaction occurred during 2003.

R. Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results may differ from those estimates.

East Cleveland City School District

Notes to the Basic Financial Statements

June 30, 2003

Note 3: Changes in Accounting Principles and Restatement of Fund Balance

A. Changes In Accounting Principles

For fiscal year 2003, the School District has implemented Governmental Accounting Standards Board Statement (GASB) No. 34, "Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments"; GASB No. 37, "Basic Financial Statements for State and Local Governments: Omnibus"; GASB No. 38, "Certain Financial Statement Note Disclosures"; and GASB Interpretation No. 6, "Recognition and Measurement of Certain Liabilities and Expenditures in Governmental Fund Financial Statements." At June 30, 2003, there was no effect on fund balance as a result of implementing GASB Statements 37 and 38 and GASB Interpretation No. 6 "Recognition and Measurement of Certain Liabilities and Expenditures in Governmental Fund Financial Statements."

GASB Statement No. 34 creates new basic financial statements for reporting on the School District's financial activities. The financial statements now include government-wide financial statements prepared on an accrual basis of accounting and fund financial statements which present information for individual major funds rather than by fund type. Nonmajor funds are presented in total in one column.

The government-wide financial statements split the School District's programs between governmental and business-type activities. The beginning net asset amount for governmental programs reflects the change in fund balance for governmental funds at June 30, 2002, caused by the conversion to the accrual basis of accounting. Except for the restatement explained below, the beginning net asset amount for the business-type activities equals fund equity of the enterprise funds from last year.

GASB Interpretation No. 6 clarifies the application of standards for modified accrual recognition of certain liabilities and expenditures in areas where differences have arisen, or potentially could arise, in interpretation and practice.

B. Restatement Of Fund Balance

The restatements for GASB Statement No. 34 and GASB Interpretation No. 6 had the following effects on fund balance of the major and nonmajor funds of the School District as they were previously reported.

The transition from governmental fund balance to net assets of the governmental activities is also presented.

	<u>General</u>	<u>Classroom Facilities</u>	<u>Nonmajor Governmental Funds</u>	<u>Total Governmental Activities</u>
Fund Balance June 30, 2002	\$ (6,683,217)	\$ 16,247,822	\$ 912,503	\$ 10,477,108
GASB 34 Adjustments:				
Capital Assets				28,096,341
Accrued Interest Payable				(40,303)
Long-Term Liabilities				(16,453,322)
Long-Term (Deferred) Assets				<u>4,816,195</u>
Governmental Activities Net Assets, June 30, 2002				\$ <u>26,896,019</u>

East Cleveland City School District

Notes to the Basic Financial Statements

June 30, 2003

Note 4: Budgetary Basis Of Accounting

While reporting financial position, results of operations and changes in fund balance/retained earnings on the basis of accounting principles generally accepted in the United States of America (GAAP), the budgetary basis as provided by law is based upon accounting for certain transactions on a basis of cash receipts, disbursements and encumbrances.

The Combined Statement of Revenues, Expenditures and Changes in Fund Balances – Budget (Non-GAAP Budgetary Basis) and Actual for the General Fund is presented on the budgetary basis to provide a meaningful comparison of actual results with the budget. The major differences between the budget basis and the fund financial statements are identified as follows:

- (a) Revenues are recorded when received in cash (budget basis) as opposed to when susceptible to accrual (GAAP basis);
- (b) Expenditures are recorded when paid in cash (budget basis) as opposed to when the liability is incurred (GAAP basis);
- (c) Encumbrances are treated as expenditures (budget basis) rather than as a reservation of fund balance (GAAP basis).

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

<u>Net Change in Fund Balance Major Governmental Fund</u>	
	<u>General</u>
GAAP Basis	\$ 7,588,349
<u>Increase (Decrease) Due to</u>	
Revenue accruals	(2,153,671)
Advance in	435,653
Expenditure accruals	(2,227,994)
Advance out	(1,946,473)
Encumbrances	<u>600,198</u>
Budget Basis	\$ <u>2,296,062</u>

East Cleveland City School District

Notes to the Basic Financial Statements

June 30, 2003

Note 5: Deposits and Investments

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

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

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

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

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

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

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

1. United States Treasury Notes, Bills, Bonds, or any other obligation or security issued by the United States Treasury or any other obligation guaranteed as to principal and interest by the United States;
2. Bonds, notes, debentures, or any other obligations or securities issued by any federal government agency or instrumentality, including but not limited to, the Federal National Mortgage Association, Federal Home Loan Bank, Federal Farm Credit Bank, Federal Home Loan Mortgage Corporation, Government National Mortgage Association, and Student Loan Marketing Association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;
3. Written repurchase agreements in the securities listed above provided that the market value of the securities subject to the repurchase agreement must exceed the principal value of the agreement by at least two percent and be marked to market daily, and that the term of the agreement must not exceed thirty days;
4. Bonds and other obligations of the State of Ohio;
5. No-load money market mutual funds consisting exclusively of obligations described in division (1) or (2) of this section and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions;
6. The State Treasurer's investment pool (STAROhio); and
7. Certain Banker's acceptance and commercial paper (if authorized by the Board of Education).

East Cleveland City School District

Notes to the Basic Financial Statements

June 30, 2003

Note 5: Deposits and Investments (continued)

Investments in stripped principal or interest obligations reverse repurchase agreements and derivatives are prohibited. The issuance of taxable notes for the purpose of arbitrage, the use of leverage and short selling are also prohibited. An investment must mature within five years from the date of purchase unless matched to a specific obligation or debt of the School District, and must be purchased with the expectation that it will be held to maturity.

Investments may only be made through specified dealers and institutions. Payment for investments may be made only upon delivery of the securities representing the investments to the Treasurer or qualified trustee or, if the securities are not represented by a certificate, upon receipt of confirmation of transfer from the custodian.

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

A . Deposits

At fiscal year-end, the carrying amount of the School District's deposits was \$1,638,691 and the bank balance was \$7,582,225. \$400,000 of the bank balance was covered by federal depository insurance. \$7,182,225 was uninsured and uncollateralized. Although the securities serving as collateral were held by the pledging financial institution's trust department in the School District's name and all State statutory requirements for the deposits of money had been followed, noncompliance with federal requirements would potentially subject the School District to a successful claim by the Federal Deposit Insurance Corporation.

B . Investments

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

East Cleveland City School District

Notes to the Basic Financial Statements

June 30, 2003

Note 5: Deposits and Investments (continued)

B. Investments (continued)

Description	Risk Category 3	Carrying Amount	Fair Value
Repurchase Agreements Federal Home Loan Bank	x	\$ 7,620,765	\$ 7,620,765
Discount Notes	x	5,943,000	5,943,000
Federal National Mortgage Association Discount Notes	x	6,687,000	6,687,000
STAROhio*		<u>1,427,729</u>	<u>1,427,729</u>
Total Investments		\$ <u>21,678,494</u>	\$ <u>21,678,494</u>

* Noncategorized

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

GASB Statement No. 9 Investments:	Cash and Cash Equivalents/ <u>Deposits</u>	<u>Investments</u>
Investments	\$ 23,317,185	\$ -
Repurchase Agreements	(7,620,765)	7,620,765
Federal Home Loan Mortgage Discount Notes	(5,943,000)	5,943,000
Federal National Mortgage Association Discount Notes	(6,687,000)	6,687,000
STAROhio	(1,427,729)	1,427,729
GASB Statement No. 3	\$ 1,638,691	\$ 21,678,494

Note 6: Property Taxes

Property taxes are levied and assessed on a calendar year basis, while the School District's fiscal year runs from July through June. First-half tax distributions are received by the School District in the second-half of the fiscal year. Second-half tax distributions occur in the first-half of the following fiscal year.

East Cleveland City School District

Notes to the Basic Financial Statements

June 30, 2003

Note 6: Property Taxes (continued)

Property taxes include amounts levied against all real, public utility and tangible personal (used in business) property located in the School District. Property tax revenue received during calendar 2003 for real and public utility property taxes represents collections of calendar 2002 taxes. Property tax payments received during calendar 2003 for tangible personal property (other than public utility property) is for calendar 2003 taxes.

2003 real property taxes are levied after April 1, 2003, on the assessed value as of January 1, 2003, the lien date. Assessed values are established by State law at thirty-five percent of appraised market value.

Public utility tangible personal property currently is assessed at varying percentages of true value; public utility real property is assessed at thirty-five percent of true value. 2003 public utility property taxes became a lien December 31, 2002, are levied after April 1, 2003 and are collected in 2004 with real property taxes.

2003 tangible personal property taxes are levied after April 1, 2002, on the value as of December 31, 2002. Collections are made in 2003. Tangible personal property assessments are twenty-five percent of true value.

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

	<u>Amount</u>
Agricultural/Residential and Other Real Estate	\$ 209,495,290
Public Utility Personal	12,750,480
Tangible Personal Property	<u>17,029,261</u>
Total	<u>\$ 239,275,031</u>

Tax rate per \$1,000 of assessed valuation	\$ 92.60
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Real property taxes are payable annually or semi-annually. If paid annually, payment is due December 31; if paid semi-annually, the first payment is due December 31 with the remainder payable by June 20. Under certain circumstances, State statute permits alternate payment dates to be established.

Tangible personal property taxes paid by multi-county taxpayers are due September 20. Single county taxpayers may pay annually or semi-annually. If paid annually, payment is due April 30; if paid semiannually, the first payment is due April 30, with the remainder payable by September 20. Tangible personal property taxes paid by April 30 are usually received by the School District prior to June 30. This year, the June 2003 tangible personal property tax settlement was not received until July 2003.

The School District receives property taxes from Cuyahoga County. The County Auditor periodically advances to the School District its portion of the taxes collected. Second-half real property tax payments collected by the County by June 30, 2003, are available for advance to finance fiscal year 2003 operations. The amount available to be advanced can vary based on the date the tax bills are sent.

East Cleveland City School District

Notes to the Basic Financial Statements

June 30, 2003

Note 6: Property Taxes (continued)

Accrued property taxes receivable represents delinquent taxes outstanding and real property, tangible personal property and public utility taxes, which were measurable as of June 30, 2003 and for which there is an enforceable legal claim. Although total property tax collections for the next fiscal year are measurable, they are not intended to finance current fiscal year operations. The receivable is therefore offset by a credit to deferred revenue for that portion not intended to finance current year operations. The amount available as an advance at June 30, 2003 was \$2,304,777 and was recognized as revenue.

Note 7: Receivables

Receivables at June 30, 2003, consisted of taxes, accounts (rent and student fees), interfund, and intergovernmental grants. All receivables are considered collectible in full due to the ability to foreclose for the nonpayment of taxes, the stable condition of State programs, and the current year guarantee of federal funds. All receivables are expected to be collected within one year except delinquent property taxes.

A summary of the principal items of intergovernmental receivables follows:

Governmental Activities:

General Fund	\$	8,589
Classroom Facilities Fund		48,815,624
Adult Basic Education		53,394
Food Service Lunch Reimbursement		<u>282,757</u>
Total Intergovernmental Receivables	\$	<u>49,160,364</u>

East Cleveland City School District

Notes to the Basic Financial Statements

June 30, 2003

Note 8: Capital Assets

Capital asset activity for the fiscal year ended June 30, 2003, was as follows:

	Restated Balance at June 30, 2002	Additions	Disposals	Balance at June 30, 2003
Governmental Activities				
Capital Assets Not Being Depreciated:				
Land	\$ 2,249,134	\$ 133,718	\$ -	\$ 2,382,852
Construction In Progress	<u>10,917,917</u>	<u>-</u>	<u>-</u>	<u>10,917,917</u>
Total Capital Assets Not Being Depreciated	<u>13,167,051</u>	<u>133,718</u>	<u>-</u>	<u>13,300,769</u>
Capital Assets Being Depreciated:				
Land Improvements	1,828,116	-	-	1,828,116
Buildings and Buildings Improvements	23,800,032	-	-	23,800,032
Equipment	<u>2,552,268</u>	<u>137,675</u>	<u>-</u>	<u>2,689,943</u>
Total Capital Assets Being Depreciated	<u>28,180,416</u>	<u>137,675</u>	<u>-</u>	<u>28,318,091</u>
Less Accumulated Depreciation				
Land Improvements	(1,271,396)	(65,753)	-	(1,337,149)
Buildings and Building Improvements	(10,880,104)	(412,399)	-	(11,292,503)
Equipment	<u>(1,099,626)</u>	<u>(378,150)</u>	<u>-</u>	<u>(1,477,776)</u>
Total Accumulated Depreciation	<u>(13,251,126)</u>	<u>(856,302)</u>	<u>-</u>	<u>(14,107,428)</u>
Total Capital Assets Being Depreciated, Net	<u>14,929,290</u>	<u>(718,627)</u>	<u>-</u>	<u>14,210,663</u>
Governmental Activities Capital Assets, Net	\$ <u>28,096,341</u>	\$ <u>(584,909)</u>	\$ <u>-</u>	\$ <u>27,511,432</u>
Business-Type Activities				
Capital Assets Being Depreciated:				
Equipment	\$ 8,451	\$ -	\$ -	\$ 8,451
Less Accumulated Depreciation	<u>(5,904)</u>	<u>(1,164)</u>	<u>-</u>	<u>(7,068)</u>
Business-Type Activities Capital Assets, Net	<u>\$ 2,547</u>	<u>\$ (1,164)</u>	<u>\$ -</u>	<u>\$ 1,383</u>

East Cleveland City School District

Notes to the Basic Financial Statements

June 30, 2003

Note 8: Capital Assets (continued)

Depreciation expense was charged to governmental functions as follows: Instruction:

Instruction:	
Regular	\$ 339,935
Special	93,368
Vocational	32,116
Other Instruction	25,846
Support Services:	
Pupil	37,101
Instructional Staff	32,310
Board of Education	11,386
Administration	74,902
Business	10,209
Fiscal	17,786
Operation and Maintenance of Plant	92,766
Pupil Transportation	23,435
Central	38,802
Food Services	8,740
Community Services	85
Academic and Subject Oriented Activities	1,129
Extracurricular Activities	7,254
Building Site Acquisition	<u>9,132</u>
 Total Depreciation Expense	 \$ <u>856,302</u>

Note 9: Long-Term Obligations

The changes in the long-term obligations of the School District for the year ended June 30, 2003 are as follows:

	Balance June 30, <u>2002</u>	<u>Additions</u>	<u>Deductions</u>	Balance June 30, <u>2003</u>	Amounts Due in <u>One Year</u>
Governmental Activities:					
<u>General Obligation Bonds</u>					
Classroom Facilities Bonds					
2002 Issue 5.017% due 12/1/2020	\$ <u>9,450,000</u>	\$ <u>-</u>	\$ <u>(395,000)</u>	\$ <u>9,055,000</u>	\$ <u>410,000</u>
<u>Other Long-Term Obligations</u>					
Ohio State Solvency Note	-	7,698,000	-	7,698,000	-
Pension Obligation	442,799	401,072	(442,799)	401,072	-
Compensated Absences	<u>6,560,523</u>	<u>6,431,077</u>	<u>(6,560,523)</u>	<u>6,431,077</u>	<u>848,616</u>
Total Other Long-Term Obligations	<u>7,003,322</u>	<u>14,530,149</u>	<u>(7,003,322)</u>	<u>14,530,149</u>	<u>848,616</u>
Total Long-Term Obligations	<u>\$16,453,322</u>	<u>\$14,530,149</u>	<u>\$ (7,398,322)</u>	<u>\$23,585,149</u>	<u>\$1,258,616</u>

East Cleveland City School District

Notes to the Basic Financial Statements

June 30, 2003

Note 9: Long-Term Obligations (continued)

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

During fiscal year 2000, the District changed the methodology of calculating compensated absences from the termination to the vesting method which included a vesting schedule, based on the employee's years of service. The District assumed that employees with 10 years of experience had a 50 percent chance of becoming eligible to retire. In addition, employees with over 15 years of experience had a 100 percent chance of becoming eligible to retire.

Principal and interest requirements to retire the long-term debt obligation outstanding at June 30, 2003 were as follows:

Year	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2004	\$ 410,000	\$ 383,563	\$ 793,563
2005	425,000	367,902	792,902
2006	440,000	351,248	791,248
2007	460,000	333,468	793,468
2008-2012	1,635,000	2,342,085	3,977,085
2013-2017	2,850,000	1,079,000	3,929,000
2018-2021	<u>2,835,000</u>	<u>291,875</u>	<u>3,126,875</u>
Totals	\$ <u>9,055,000</u>	\$ <u>5,149,141</u>	\$ <u>14,204,141</u>

East Cleveland City School District

Notes to the Basic Financial Statements

June 30, 2003

Note 10: Compensated Absences

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

Vacation benefits are accrued as a liability as the benefits are earned if the employees' rights to receive compensation are attributable to services already rendered and it is probable that the School District will compensate the employees for the benefits through paid time off or some other means. The School District records a liability for accumulated unused vacation time when earned for all employees with more than one year of service.

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

Note 11: Defined Benefit Retirement Plans

A. School Employees Retirement System

The East Cleveland City School District contributes to the School Employee Retirement System (SERS), a cost-sharing multiple-employer defined benefit pension plan. SERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Authority to establish and amend benefits is provided by State statute per Chapter 3309 of the Ohio Revised Code. SERS issues a publicly available, stand-alone financial report that includes financial statements and required supplementary information. That report may be obtained by writing to SERS, 300 East Broad Street, Suite 100, Columbus, Ohio 43215-3746 or by calling (800) 878-5853. It is also posted on SERS' website, www.ohsers.org, under Forms and Publications.

Plan members are required to contribute 9 percent of their annual covered salary and the School District is required to contribute at an actuarially determined rate. The current School District rate is 14 percent of annual covered payroll. A portion of the School District's contribution is used to fund pension obligations with the remainder being used to fund health care benefits; for fiscal year 2003, 8.17 percent of annual covered salary was the portion used to fund pension obligations. For fiscal year 2002, 5.46 percent was used to fund pension obligations. The contribution requirements of plan members and employers are established and may be amended, up to statutory maximum amounts, by the SERS' Retirement Board. The School District's contributions to SERS for the fiscal years ended June 30, 2003, 2002, and 2001 were \$1,204,635, \$1,233,663, and \$450,507, respectively. All contributions have been paid.

East Cleveland City School District

Notes to the Basic Financial Statements

June 30, 2003

Note 11: Defined Benefit Retirement Plans (continued)

B. State Teachers Retirement System

The East Cleveland City School District participates in the State Teachers Retirement System of Ohio (STRS Ohio), a cost-sharing multiple employer public employee retirement system. STRS Ohio provides retirement and disability benefits to members and death and survivor benefits to beneficiaries. STRS Ohio issues a stand-alone financial report. The report may be obtained by writing to STRS Ohio, 275 East Broad Street, Columbus, Ohio 43215-3371 or by calling (614) 227- 4090.

New members have a choice of three retirement plans, a Defined Benefit (DB) Plan, a Defined Contribution (DC) Plan and a Combined Plan. The DB plan offers an annual retirement allowance based on final average salary times a percentage that varies based on years of service, or an allowance based on member contributions and earned interest matched by STRS Ohio funds times an actuarially determined annuity factor. The DC Plan allows members to place all their member contributions and employer contributions equal to 10.5 percent of earned compensation into an investment account. Investment decisions are made by the member. A member is eligible to receive a retirement benefit at age 50 and termination of employment. The Combined Plan offers features of both the DC Plan and the DB Plan. In the Combined Plan, member contributions are invested by the member, and employer contributions are used to fund the defined benefit payment at a reduced level from the regular DB Plan. DC and Combined Plan members will transfer to the Defined Benefit Plan during their fifth year of membership unless they permanently select the DC or Combined Plan. Existing members with less than five years of service credit as of June 30, 2001, were given the option of making a one time irrevocable decision to transfer their account balances from the existing DB Plan into the DC Plan or the Combined Plan. This option expired on December 31, 2001. Benefits are established by Chapter 3307 of the Ohio Revised Code.

A DB or Combined Plan member with five or more years credited service who becomes disabled may qualify for a disability benefit. Eligible spouses and dependents of these active members who die before retirement may qualify for survivor benefits. Members in the DC Plan who become disabled are entitled only to their account balance. If a member dies before retirement benefits begin, the member's designated beneficiary is entitled to receive the member's account balance.

For the fiscal year ended June 30, 2003, plan members were required to contribute 9.3 percent of their annual covered salaries. The School District was required to contribute 14 percent; 13 percent was the portion used to fund pension obligations. For fiscal year 2002, the portion used to fund pension obligations was 9.5 percent. Contribution rates are established by the State Teachers Retirement Board, upon recommendations of its consulting actuary, not to exceed statutory maximum rates of 10 percent for members and 14 percent for employers. Chapter 3307 of the Ohio Revised Code provides statutory authority for member and employer contributions.

The School District's required contributions for pension obligations to STRS Ohio for the fiscal years ended June 30, 2003, 2002, and 2001 were \$3,951,767, \$3,903,440, and \$1,744,632, respectively; 85.17 percent has been contributed for fiscal year 2003, and 100 percent for fiscal years 2002 and 2001.

East Cleveland City School District

Notes to the Basic Financial Statements

June 30, 2003

Note 12 - Postemployment Benefits

The School District provides comprehensive health care benefits to retired teachers and their dependents through the State Teachers Retirement System (STRS), and to retired non-certified employees and their dependents through the School Employees Retirement System (SERS). Benefits include hospitalization, physicians' fees, prescription drugs and reimbursement of monthly Medicare premiums. Benefit provisions and the obligations to contribute are established by the Systems based on authority granted by State statute. Both systems are on a pay-as-you-go basis.

All STRS benefit recipients and sponsored dependants are eligible for health care coverage. The STRS Board has statutory authority over how much, if any, of the health care costs will be absorbed by STRS. Most benefit recipients pay a portion of health care costs in the form of a monthly premium. By law, the cost of coverage paid from STRS funds shall be included in the employer contribution rate, currently 14 percent of covered payroll. For the fiscal year ended June 30, 2003, the STRS Board allocated employer contributions equal to 1 percent of covered payroll to the Health Care Reserve Fund. For the School District, this amount equaled \$303,982 for fiscal year 2003.

STRS pays health care benefits from the Health Care Reserve Fund. At June 30, 2002, (the latest information available) the balance in the Fund was \$3.011 billion. For the year ended June 30, 2002, net health care costs paid by STRS were \$354,697,000 and STRS had 105,300 eligible benefit recipients.

For SERS, coverage is made available to service retirees with ten or more fiscal years of qualifying service credit, and to disability and survivor benefit recipients. Members retiring on or after August 1, 1989, with less than twenty-five years of service credit must pay a portion of their premium for health care. The portion is based on years of service up to a maximum of 75 percent of the premium.

After the allocation for basic benefits, the remainder of the employer's 14 percent contribution is allocated to providing health care benefits. For the fiscal year ended June 30, 2003, employer contributions to fund health care benefits were 5.83 percent of covered payroll, a decrease of 2.71 percent from fiscal year 2002. In addition, SERS levies a surcharge to fund health care benefits equal to 14 percent of the difference between a minimum pay and the member's pay, pro-rated for partial service credit. For fiscal year 2003, the minimum pay has been established at \$14,500. For the School District, the amount contributed to fund health care benefits, including the surcharge, during the 2003 fiscal year equaled \$977,927.

The surcharge, added to the unallocated portion of the 14 percent employer contribution rate, provides for maintenance of the asset target level for the health care fund. The target level for the health care reserve is 150 percent of annual health care expenses. Expenses for health care for the fiscal year ended June 30, 2002 (the latest information available), were \$182,946,777 and the target level was \$274.4 million. At June 30, 2002, SERS had net assets available for payment of health care benefits of \$335.2 million. SERS had approximately 50,000 participants currently receiving health care benefits.

East Cleveland City School District

Notes to the Basic Financial Statements

June 30, 2003

Note 13: Health Care Benefits

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

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

Note 14: Set Asides

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

The following cash basis information identifies the changes in fund balance reserves for textbooks and instructional materials, capital improvements, and budget stabilization during fiscal year 2003. Disclosure of this information is required by State Statute.

	<u>Textbooks</u>	<u>Capital Improvements</u>	<u>Total</u>
Balance June 30, 2002	\$ 375,385	\$ (9,414,956)	\$ (9,039,571)
Current Year Set Aside Requirement	884,553	884,553	1,769,106
Qualifying Expenditures	<u>(658,746)</u>	<u>(725,323)</u>	<u>(1,384,069)</u>
Balance June 30, 2003	\$ <u>601,192</u>	<u>(9,255,726)</u>	<u>(8,654,534)</u>
Set-Aside Balance Carried Forward to Future Fiscal Years	\$ _____	<u>(9,255,726)</u>	<u>(9,255,726)</u>
Set-Aside Reserve Balances as of June 30, 2003	\$ <u>601,192</u>	\$ _____	\$ <u>601,192</u>

In the prior year, the School District had qualifying offsets that reduced the capital improvements set-aside amounts below zero.

East Cleveland City School District

Notes to the Basic Financial Statements

June 30, 2003

Note 15: Operating Transfers

A. Interfund transactions for the year ended June 30, 2003 consisted of the following:

<u>Interfund Receivable</u>	<u>Interfund Payable</u>	<u>Amount</u>
General Fund	Nonmajor Governmental Funds	\$ 1,168,462
General Fund	Nonmajor Enterprise Funds	5,000
Nonmajor Governmental Funds	Nonmajor Governmental Funds	<u>5,960</u>
		<u>\$ 1,179,422</u>

B. Following is a summary of operating transfers for all funds for June 30, 2003:

	<u>Transfer In</u>		<u>Total</u>
	<u>Nonmajor Governmental</u>	<u>Nonmajor Enterprise</u>	
Transfer Out:			
General Fund	\$ <u>150,000</u>	\$ <u>100,000</u>	\$ <u>250,000</u>

Note 16: Risk Management

A. Property and Liability

The School District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees and natural disasters. During fiscal year 2003, the School District contracted with Nationwide for property insurance of \$85,946,200, fleet insurance of \$1,000,000, and liability coverage of \$5,000,000 with a \$5,000 deductible.

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

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

B. Worker's Compensation

The School District participates in the Ohio School Boards Association Workers' Compensation Group Rating Plan (GRP), an insurance purchasing pool (Note 19). The intent of the GRP is to achieve the benefit of a reduced premium for the School District by virtue of its grouping and representation with other participants in the GRP. The workers' compensation experience of the participating school districts is calculated as one experience and a common premium rate is applied to all school districts in the GRP. Each participant pays its workers' compensation premium to the State based on the rate for the GRP rather than its individual rate. Total savings are then calculated and each participant's individual performances is compared to the overall savings percent of the GRP. A participant will then either receive money from or be required to contribute to the "Equity Pooling Fund."

East Cleveland City School District

Notes to the Basic Financial Statements

June 30, 2003

Note 16: Risk Management (continued)

B. Worker's Compensation (continued)

This "equity pooling fund" arrangement insures that each participant shares equally in the overall performance of the GRP. Participation in the GRP is limited to school districts that can meet the GRP's selection criteria. The school districts apply for participation each year.

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

Note 17: Jointly Governed Organization

A. Lakeshore Northeast Ohio Computer Association

The Lakeshore Northeast Ohio Computer Association (LNOCA) is a jointly governed computer service bureau that was formed for the purpose of providing data services to the eleven member districts. Major areas of service provided by LNOCA include accounting, payroll, inventory, career guidance services, handicapped student tracking, pupil scheduling, attendance reporting and grade reporting. Each school is represented on the LNOCA Board of Directors by its superintendent. Each year, the Board of Directors elects a Chairman, a Vice Chairman and a Recording Secretary. The Treasurer of the fiscal agent is a nonvoting, ex-officio member of the Board of Directors. The Cuyahoga County Educational Service Center serves as the fiscal agent of LNOCA. Each school district supports LNOCA based upon a per pupil charge dependent upon the software packages used. In fiscal year 2003, the School District paid \$5,000 to LNOCA. Financial information can be obtained by contacting the Treasurer of the fiscal agent at 5700 West Canal Road, Valley View, OH 44125.

B. Ohio Schools Council Association

The Ohio Schools Council Association (Council) is a jointly governed organization among eighty-three school districts. The jointly governed organization was formed to purchase quality products and services at the lowest possible cost to the member districts. Each district supports the Council by paying an annual participation fee. The Council's Board consists of seven superintendents of the participating districts whose term rotates every year. The degree of control exercised by any school district is limited to its representation on the Board. In fiscal year 2003, the School District paid \$366,156 to the Council. Financial information can be obtained by contacting Albert G. Vasek, the Executive Secretary of the Ohio Schools Council at 155 Center Road, Bedford, Ohio, 44146.

The School District participates in the Council's electric purchase program, which was implemented during fiscal year 2003. The electric purchase program allows school districts to purchase electricity at reduced rates, if the school districts will commit to participating for an eight-year period. The participants make monthly payments based on estimated usage. Each June these estimated payments are compared to their actual usage for the year and any necessary adjustments are made.

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

East Cleveland City School District

Notes to the Basic Financial Statements

June 30, 2003

Note 18: Related Organization

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

Note 19: Public Entity Risk Pool

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

Note 20: School Foundation Program

On September 6, 2002, the Ohio Supreme Court issued its latest opinion regarding the State's school funding plan. The decision identified aspects of the current plan that require modification if the plan is to be considered constitutional, including:

- A change in the school districts that are used as the basis for determining the base cost support amount. Any change in the amount of funds distributed to school districts as a result of this change must be retroactive to July 1, 2002, although a time line for distribution is not specified.
- Fully funding parity aid no later than the beginning of fiscal year 2004 rather than fiscal year 2006.

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

The State of Ohio, in a motion filed September 17, 2002, asked the Court to reconsider and clarify the parts of the decision changing the school districts that are used as the basis for determining the base cost support amount and the requirement that changes be made retroactive to July 1, 2002. In November 2002, the Court granted the request for reconsideration, but also ordered the parties to participate in a settlement conference with a court appointed mediator. On March 21, 2003, the mediator issued his final report indicating that the conference was unable to produce a settlement. The case is now under reconsideration by the Court.

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

Notes to the Basic Financial Statements

June 30, 2003

Note 21: Contingencies/Pending Litigation

A . Grants

The School District received financial assistance from federal and state agencies in the form of grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and is subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the general fund or other applicable funds. However, in the opinion of management, any such disallowed claims will not have a material adverse effect on the overall financial position of the School District at June 30, 2003.

B . Litigation

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

Note 22: Accountability and Compliance

A. Accountability

At June 30, 2003, the following funds had a deficit fund balance:

General Fund	\$ 1,202,106
Special Revenue Funds:	
Food Service	289,962
District Managed Activities	105,015
Summer Intervention	654
JTPA Step	35,602
Title IV	1,172
Voc Ed Carl Perkins	50,130
Title I	44,718
Preschool Handicapped	7,710
Improving Teacher Quality	48,821
Other Federal Grants	41,734

These deficits were caused by the application of accounting principles generally accepted in the United States of America to these Funds, namely the accruing of wages and benefits. These deficits are expected by management to be eliminated by future intergovernmental revenues.

East Cleveland City School District

Notes to the Basic Financial Statements

June 30, 2003

Note 22: Accountability and Compliance (continued)

B. Compliance

1. 17 C.F.R. Section 240.15c2-12(b)(5)(i) requires, in part, that the issuer of municipal securities must agree in writing to provide to all approved Nationally Recognized Municipal Securities Information Repositories (NRMSIRs) and to the State Information Depository (SID) their annual financial information and operating data or timely notice of failure to provide the required financial information.

On February 15, 1999, the District issued \$10,559,716 in school improvement bonds. The continuing disclosure certificate executed as part of the debt issuance, required the District to issue annual financial information commencing with the fiscal year ending June 30, 1999. It also required timely notice of failure to provide the required financial information. The District (ECCSD) did not file the information until December 15, 2006 encompassing five (5) preceding fiscal years.

2. Ohio Rev. Code § 5705.10(H) provides that money paid into a fund must be used only for the purposes for which such fund has been established. A fund with a negative fund balance signifies that monies from other funds were used to meet their obligations. A review of District's general ledger disclosed the following funds had significant negative cash fund balances as of March 31, 2003:

<u>Fund</u>	<u>Amount</u>
General	(\$2,291,890)
Food Service	(667,030)
Uniform School Supplies	(60,947)
Alternative School Challenge	(35,540)
Adult Basis Education	(9,527)
Title VI-B	(122,769)
Preschool Grant	(8,981)
Other Federal Grants	(69,993)

3. Ohio Rev. Code § 5705.41(D)(1) prohibits a subdivision or taxing entity from making any contract or ordering any expenditure of money unless a certificate signed by the fiscal officer is attached thereto. The fiscal officer must certify that the amount required to meet any such contract or expenditure has been lawfully appropriated and is in the treasury, or is in the process of collection to the credit of an appropriate fund free from any previous encumbrance. The District entered into several obligations prior to obtaining the Treasurer's certification of funds, as required.

East Cleveland City School District

Notes to the Basic Financial Statements

June 30, 2003

Note 22: Accountability and Compliance (continued)

4. Ohio Rev. Code § 5705.41(B) prohibits a subdivision from making an expenditure unless it has been appropriated as provided in Chapter 5705 of the Revised Code. Ohio Rev. Code § 5705.41(D) provides that no subdivision shall make any contract or order any expenditure of money unless the certificate of the fiscal officer is attached. The fiscal officer must certify that the amount required to meet such a commitment has been lawfully appropriated and is in the treasury or in the process of collection to the credit of an appropriate fund free from any previous encumbrance. Further, contracts and orders for expenditure lacking prior certification shall be void.

As of March 31, 2003 and June 30, 2003, the following funds (cost centers) had expenditures plus encumbrances in excess of appropriations:

<u>Fund</u>	<u>Total Appropriations</u>	<u>Total Expenditures plus Encumbrances</u>	<u>Excess</u>
<u>As of March 31, 2003</u>			
Food Service	\$741,955	\$2,752,595	\$2,010,640
Uniform Supplies	2,085	82,532	80,447
Alternative School	195,060	240,286	45,226
Adult Basic Education	107,947	177,487	69,540
Vocational Education Carl Perkins	151,897	244,434	92,537
Title I	2,372,217	2,550,750	178,533
Title VI	69,354	77,915	8,561
Drug Free	81,678	88,253	6,575
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Title VI-R	436,115	445,779	9,664
Other Federal Grants	134,024	1,052,757	918,733
<u>As of June 30, 2003</u>			
Other Local Grants	398,193	404,587	6,374
Preschool Grant	257,094	258,518	1,424
Alternative School	195,060	291,935	96,875
Adult Basic Education	107,947	184,949	77,002
Vocational Education	151,897	301,217	149,320
Title I	2,093,058	3,247,190	924,973
Title VI	69,354	95,924	26,570
Drug Free	81,678	90,132	8,454
Title VI-R	436,115	594,440	158,325
Other Federal Grants	134,024	1,239,111	1,105,087
Food Service	1,605,998	2,507,423	901,427
Uniform Supply	2,085	20,559	18,474

East Cleveland City School District

Notes to the Basic Financial Statements

June 30, 2003

Note 23: Fiscal Emergency

In accordance with Ohio Revised Code Chapter 3316, the School District was placed under fiscal emergency by the Auditor of State in February of 2003. The declaration of fiscal emergency results from spending exceeding revenues, relying on carryover cash balances from prior years, and borrowing to finance recent deficits. The financial operation of the School District has in part been turned over to the Financial Planning and Supervision Commission. This commission is comprised of five members including the Superintendent of Public Instruction and the School Management Assistance Assistant Director.

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**EAST CLEVELAND CITY SCHOOL DISTRICT
CUYAHOGA COUNTY**

**SCHEDULE OF FEDERAL AWARDS RECEIPTS AND EXPENDITURES
FOR THE YEAR ENDED JUNE 30, 2003**

Federal Grantor/ Pass Through Grantor Program Title	Pass Through Entity Number	Federal CFDA Number	Receipts	Non-Cash Receipts	Disbursements	Non-Cash Disbursements
U.S. DEPARTMENT OF EDUCATION						
<i>Passed Through Ohio Department of Education:</i>						
Adult Education- State Grant Program	ABS1-2002	84.002	\$34,347	\$0	\$2,294	\$0
Adult Education- State Grant Program	ABS1-2002-C		19,623	0	17,410	0
Adult Education- State Grant Program	ABS1-2003		50,494	0	155,263	0
Subtotal 84.002			104,464	0	174,967	0
Title 1 Education Consolidation Improvement Act	C1S1-2002	84.010	471,391	0	569,899	0
Title 1 Education Consolidation Improvement Act	C1S1-2003		2,392,243	0	2,138,374	0
Title 1 Education Consolidation Improvement Act	C1SK-2003		93,622	0	69,607	0
Subtotal 84.010			2,957,256	0	2,777,880	0
Special Education Cluster:						
Education Handicapped Act - 6B	6BEC-2002-P	84.027	16,000	0	15,882	0
Education Handicapped Act - 6B	6BPM-2003-P		25,000	0	15,906	0
Education Handicapped Act - 6B	6BSF-2002-P		75,943	0	94,842	0
Education Handicapped Act - 6B	6BSF-2003-P		512,379	0	461,692	0
Subtotal 84.027			629,322	0	588,322	0
Special Education - Preschool Grant	PGS1-2002-P	84.173	19,338	0	1,206	0
Special Education - Preschool Grant	PGS1-2003-P		14,006	0	21,948	0
Subtotal 84.173			33,344	0	23,154	0
Total Special Education Cluster:			662,666	0	611,476	0
Vocational Education - Basic Grant	20A0-2002	84.048	3,360	0	118,391	0
Vocational Education - Basic Grant	20C1-2002		31,686	0	112,939	0
Vocational Education - Basic Grant	20C1-2003		204,480	0	6,515	0
Subtotal 84.048			239,526	0	237,845	0
Innovative Educational Program Strategies	C2S1-2000	84.298	(2,403)	0	0	0
Innovative Educational Program Strategies	C2S1-2001		(288)	0	0	0
Innovative Educational Program Strategies	C2S1-2002		33,636	0	52,989	0
Innovative Educational Program Strategies	C2S1-2003		38,221	0	28,677	0
Subtotal 84.298			69,166	0	81,666	0
Drug-Free Schools Grant	DRS1-2001	84.186	(137)	0	450	0
Drug-Free Schools Grant	DRS1-2002		25,191	0	30,902	0
Drug-Free Schools Grant	DRS1-2003		56,944	0	43,823	0
Subtotal 84.186			81,998	0	75,175	0
Safe and Drug-Free Schools and Communities	T4S1-2003	84.184C	4,245	0	4,245	0
Goals 2000	G2-S2 2002	84.276	0	0	11,232	0
21st Century Community Learning Center	T1S1-2003	84.287	121,828	0	64,000	0
<i>Direct Assistance</i>						
21st Century Community Learning Center	S215L020110	84.287	34,861	0	34,861	0
21st Century Community Learning Center	S287A010059		690,446	0	690,446	0
21st Century Community Learning Center	S287B000254		85,164	0	151,886	0
Subtotal 84.287 Direct Assistance			810,471	0	877,193	0
Even Start Family Literacy	EVS2-2001	84.213	49,987	0	59,603	0
Even Start Family Literacy	EVS3-2002		107,481	0	47,988	0
Even Start Family Literacy	EVS4-2003		39,483	0	29,634	0
Subtotal 84.213			196,951	0	137,226	0
Eisenhower Professional Development State Grant	MSSI-2002	84.281	37,840	0	46,988	0
Education Technology State Grants	TJS1-2003	84.318	57,302	0	41,907	0
Advanced Placement Program	AVS1-2002	84.330	1,924	0	1,924	0
Advanced Placement Program	AVS1-2003		2,000	0	2,000	0
Subtotal 84.330			3,924	0	3,924	0

**EAST CLEVELAND CITY SCHOOL DISTRICT
CUYAHOGA COUNTY**

**SCHEDULE OF FEDERAL AWARDS RECEIPTS AND EXPENDITURES
FOR THE YEAR ENDED JUNE 30, 2003
(CONTINUED)**

Federal Grantor/ Pass Through Grantor Program Title	Pass Through Entity Number	Federal CFDA Number	Receipts	Non-Cash Receipts	Disbursements	Non-Cash Disbursements
<u>U.S. DEPARTMENT OF EDUCATION</u>						
<i>Passed Through Ohio Department of Education:</i>						
(CONTINUED)						
Comprehensive School Reform Demonstration	RFS1-2002	84.332	30,000	0	88,958	0
Class Size Reduction Subsidy	CRS1-2001	84.340	32,603	0	32,603	0
Class Size Reduction Subsidy	CRS1-2002		<u>54,296</u>	<u>0</u>	<u>115,412</u>	<u>0</u>
Subtotal 84.340			86,899	0	148,015	0
Title I Accountability	AKS1-2002	84.348	1,992	0	714	0
Improving Teacher Quality, Title II-A	TRS1-2003	84.367	493,716	0	440,782	0
Assistive Technology Infusion Project	ATS2-2002	84.352A	2,135	0	1,376	0
Assistive Technology Infusion Project	ATS3-2002		<u>1,612</u>	<u>0</u>	<u>0</u>	<u>0</u>
Subtotal 84.352A			3,747	0	1,376	0
Total U.S. Department of Education			<u>5,963,991</u>	<u>0</u>	<u>5,825,569</u>	<u>0</u>
<u>U. S. DEPARTMENT OF HEALTH AND HUMAN SERVICES</u>						
<i>Passed Through the Ohio Department of</i>						
<i>Mental Retardation & Developmental Disabilities</i>						
Title XIX - Medical Assistance Program (CAFS)	N/A	93.778	348,347		348,347	0
<u>U.S. DEPARTMENT OF AGRICULTURE</u>						
<i>Passed Through Ohio Department of Education:</i>						
Nutrition Cluster:						
Food Distribution Center		10.550	0	37,569	0	37,569
School Breakfast Program	05PU-2002	10.553	92,784	0	92,784	0
School Breakfast Program	05PU-2003		<u>287,873</u>	<u>0</u>	<u>287,873</u>	<u>0</u>
Subtotal 10.553			380,657	0	380,657	0
National School Lunch Program	LLP1-2002	10.555	1,547	0	1,547	0
National School Lunch Program	LLP1-2003		14,965	0	14,965	0
National School Lunch Program	LLP4-2002		433,731	0	433,731	0
National School Lunch Program	LLP4-2003		<u>1,151,611</u>	<u>0</u>	<u>1,151,611</u>	<u>0</u>
Subtotal 10.555			1,601,854	0	1,601,854	0
Summer Food Service Program for Children	23PU-2002	10.559	(6,057)	0	0	0
Summer Food Service Program for Children	23PU-2003		9,000	0	9,000	0
Summer Food Service Program for Children	24PU-2002		599	0	599	0
Summer Food Service Program for Children	24PU-2003		<u>970</u>	<u>0</u>	<u>970</u>	<u>0</u>
Subtotal 10.559			4,512	0	10,569	0
Total U.S. Department of Agriculture - Nutrition Cluster			<u>1,987,023</u>	<u>37,569</u>	<u>1,993,080</u>	<u>37,569</u>
<u>U.S. DEPARTMENT OF DEFENSE</u>						
Direct Assistance:						
Junior ROTC	N/A	12.000	35,765	0	35,765	0
Totals			<u>\$8,335,126</u>	<u>\$37,569</u>	<u>\$8,202,761</u>	<u>\$37,569</u>

**EAST CLEVELAND CITY SCHOOL DISTRICT
CUYAHOGA COUNTY**

**NOTES TO THE SCHEDULE OF FEDERAL AWARDS RECEIPTS AND EXPENDITURES
JUNE 20, 2003**

NOTE A - SIGNIFICANT ACCOUNTING POLICIES

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

NOTE B - FOOD DISTRIBUTION

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

NOTE C - NATIONAL SCHOOL LUNCH AND SPECIAL MILK PROGRAMS

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

N/A - Not applicable

CFDA - Catalog of Federal Domestic Assistance

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Mary Taylor, CPA

Auditor of State

INDEPENDENT ACCOUNTANTS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS REQUIRED BY *GOVERNMENT AUDITING STANDARDS*

Board of Education
East Cleveland City School District
Cuyahoga County
14305 Shaw Avenue Modular
East Cleveland, Ohio 44112-2707

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the East Cleveland City School District, Cuyahoga County, Ohio, (the District) as of and for the year ended June 30, 2003, which collectively comprise the District's basic financial statements and have issued our report thereon dated January 7, 2009, wherein we noted the District implemented GASB 34. We qualified our report on governmental activities because of effect of the misstatement to capital assets. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the Comptroller General of the United States' *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the District's internal control over financial reporting to determine our auditing procedures to express our opinions on the financial statements and not to opine on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the District's ability to record, process, summarize, and report financial data consistent with management's assertions in the financial statements. Reportable conditions are described in the accompanying schedule of findings and questioned costs as items 2003-006 through 2003-008.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts material to the financial statements we audited may occur and not be timely detected by employees when performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered material weaknesses. We consider reportable conditions 2003-006 through 2003-008 listed above to be material weaknesses. In a separate letter to the District's management dated January 7, 2009, we reported other matters involving internal control over financial reporting which we did not deem reportable conditions.

Compliance and Other Matters

As part of reasonably assuring whether the District's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could directly and materially affect the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express an opinion. The results of our tests disclosed instances of noncompliance or other matters that we must report under *Government Auditing Standards* which are described in the accompanying schedule of findings and questioned costs as items 2003-001 through 2003-005. In a separate letter to the District's management dated January 7, 2009, we reported other matters related to noncompliance we deemed immaterial.

The District's responses to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. We did not audit the District's responses and, accordingly, we express no opinion on them.

We intend this report solely for the information and use of management, the Board of Education, federal awarding agencies, and pass-through entities. It is not intended for anyone other than these specified parties.



Mary Taylor, CPA
Auditor of State

January 7, 2009



Mary Taylor, CPA

Auditor of State

INDEPENDENT ACCOUNTANTS' REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR FEDERAL PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

Board of Education
East Cleveland City School District
Cuyahoga County
14305 Shaw Avenue Modular
East Cleveland, Ohio 44112-2707

Compliance

We have audited the compliance of the East Cleveland City School District, Cuyahoga County, Ohio, (the District) with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133, Compliance Supplement* that apply to each of its major federal programs for the year ended June 30, 2003. The summary of auditor's results section of the accompanying schedule of findings and questioned costs identifies the District's major federal program. The District's management is responsible for complying with the requirements of laws, regulations, contracts, and grants applicable to each major federal program. Our responsibility is to express an opinion on the District's compliance based on our audit.

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

In our opinion, the District complied, in all material respects, with the requirements referred to above that apply to each of its major federal programs for the year ended June 30, 2003. However, the results of our auditing procedures disclosed instances of noncompliance with those requirements that OMB Circular A-133 requires us to report, which is described in the accompanying schedule of findings and questioned costs as items 2003-009 through 2003-012.

Internal Control Over Compliance

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

We noted certain matters involving the internal control over compliance and its operation that we consider reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over compliance that, in our judgment, could adversely affect the District's ability to administer a major federal program in accordance with applicable requirements of laws, regulations, contracts, and grants. Reportable conditions are described in the accompanying schedule of findings and questioned costs as items 2003-009 through 2003-013.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts and grants caused by error or fraud that would be material in relation to a major federal program being audited may occur and not be timely detected by employees when performing their assigned functions. Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered material weaknesses. We considered item 2003-013 to be a material weakness. We also noted other matters involving the internal control over federal compliance not requiring inclusion in this report, that we reported to the District's management in a separate letter dated January 7, 2009.

The District's responses to the findings we identified are described in the accompanying schedule of findings and questioned costs. We did not audit the District's responses and, accordingly, we express no opinion on them.

We intend this report solely for the information and use of management, the Board of Education, federal awarding agencies, and pass-through entities. It is not intended for anyone other than these specified parties.



Mary Taylor, CPA
Auditor of State

January 7, 2009

**EAST CLEVELAND CITY SCHOOL DISTRICT
 CUYAHOGA COUNTY
 SCHEDULE OF FINDINGS AND QUESTIONED COSTS
 OMB CIRCULAR A-133 § .505
 FOR THE FISCAL YEAR ENDED JUNE 30, 2003**

SUMMARY OF AUDITOR'S RESULTS		
(d)(1)(i)	Type of Financial Statement Opinion	Qualified
(d)(1)(ii)	Were there any material control weakness conditions reported at the financial statement level (GAGAS)?	Yes
(d)(1)(ii)	Were there any other reportable control weakness conditions reported at the financial statement level (GAGAS)?	No
(d)(1)(iii)	Was there any reported material non-compliance at the financial statement level (GAGAS)?	Yes
(d)(1)(iv)	Were there any material internal control weakness conditions reported for major federal programs?	Yes
(d)(1)(iv)	Were there any other reportable internal control weakness conditions reported for major federal programs?	Yes
(d)(1)(v)	Type of Major Programs' Compliance Opinion	Unqualified
(d)(1)(vi)	Are there any reportable findings under § .510?	Yes
(d)(1)(vii)	Major Programs (list):	CFDA # 84.010 - Title I 93.778 - Title XIX (CAFS) 84.287 - 21 st Century Community Learning Center Nutrition Cluster 10.550 – Food Distribution 10.553 – School Breakfast Program 10.555 – National School Lunch Program 10.559 – Summer Food Service Program For Children
(d)(1)(viii)	Dollar Threshold: Type A/B Programs	Type A: > \$ 300,000 Type B: all others
(d)(1)(ix)	Low Risk Auditee?	No

**EAST CLEVELAND CITY SCHOOL DISTRICT
 CUYAHOGA COUNTY
 SCHEDULE OF FINDINGS AND QUESTIONED COSTS
 OMB CIRCULAR A-133 § .505
 FOR THE FISCAL YEAR ENDED JUNE 30, 2003**

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

Finding Number	2003-001
-----------------------	-----------------

17 C.F.R. Section 240.15c2-12(b)(5)(i) requires, in part, that the issuer of municipal securities must agree in writing to provide to all approved Nationally Recognized Municipal Securities Information Repositories (NRMSIRs) and to the State Information Depository (SID) their annual financial information and operating data or timely notice of failure to provide the required financial information.

On February 15, 1999, the District issued \$10,559,716 in school improvement bonds. The continuing disclosure certificate executed as part of the debt issuance, required the District to issue annual financial information commencing with the fiscal year ending June 30, 1999. It also required timely notice of failure to provide the required financial information. The District has yet to comply with the above requirements.

We recommend that the District provide their annual financial report to the appropriate regulatory agencies.

District's Response

The East Cleveland City School District (ECCSD) filed a continuing disclosure document on December 15, 2006 encompassing five (5) preceding fiscal years. This work was performed by Peck, Shaffer & Williams, LLP.

Finding Number	2003-002
-----------------------	-----------------

Ohio Rev. Code § 5705.10(H) provides that money paid into a fund must be used only for the purposes for which such fund has been established. A fund with a negative fund balance signifies that monies from other funds were used to meet their obligations. A review of District's general ledger disclosed the following funds had significant negative cash fund balances as of March 31, 2003:

<u>Fund</u>	<u>Amount</u>
General	(\$2,291,890)
Food Service	(667,030)
Uniform School Supplies	(60,947)
Alternative School Challenge	(35,540)
Adult Basis Education	(9,527)
Title VI-B	(122,769)
Preschool Grant	(8,981)
Other Federal Grants	(69,993)

We recommend that the budget be monitored to ensure that sufficient cash is on hand to pay for obligations and that advances be utilized when legally required. We also recommend the District review Auditor of State Bulletin 97-003 which sets forth the requirements for inter-fund advances and provides additional guidance for recording such transactions.

District's Response

ECCSD has begun using the Uniform School Accounting Software security set-up effective mid-FY06 to prevent employees from processing requisitions that would negatively impact their individual budgets. Additionally, project cash requests (PCR's) for federal funds and advances/transfers are done on a monthly basis, in an effort to eliminate, or significantly reduce negative fund balance conditions.

**EAST CLEVELAND CITY SCHOOL DISTRICT
 CUYAHOGA COUNTY
 SCHEDULE OF FINDINGS AND QUESTIONED COSTS
 OMB CIRCULAR A-133 § .505
 FOR THE FISCAL YEAR ENDED JUNE 30, 2003**

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

Finding Number	2003-003
-----------------------	-----------------

Ohio Rev. Code § 5705.41(B) prohibits a subdivision from making an expenditure unless it has been appropriated as provided in Chapter 5705 of the Revised Code. Ohio Rev. Code § 5705.41(D) provides that no subdivision shall make any contract or order any expenditure of money unless the certificate of the fiscal officer is attached. The fiscal officer must certify that the amount required to meet such a commitment has been lawfully appropriated and is in the treasury or in the process of collection to the credit of an appropriate fund free from any previous encumbrance. Further, contracts and orders for expenditure lacking prior certification shall be void.

As of March 31, 2003 and June 30, 2003, the following funds (cost centers) had expenditures plus encumbrances in excess of appropriations:

<u>Fund</u>	<u>Total Appropriations</u>	<u>Total Expenditures plus Encumbrances</u>	<u>Excess</u>
<u>As of March 31, 2003</u>			
Food Service	\$741,955	\$2,752,595	\$2,010,640
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Other Federal Grants	134,024	1,052,757	918,733
<u>As of June 30, 2003</u>			
Other Local Grants	398,193	404,587	6,374
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Title VI	69,354	95,924	26,570
Drug Free	81,678	90,132	8,454
Title VI-R	436,115	594,440	158,325
Other Federal Grants	134,024	1,239,111	1,105,087
Food Service	1,605,998	2,507,423	901,427
Uniform Supply	2,085	20,559	18,474

We recommend that appropriations be compared to expenditures plus encumbrances on a monthly basis and that appropriations be amended when necessary. The Treasurer should deny payment requests for expenditures where appropriations are not available pursuant to 5705.41(D).

**EAST CLEVELAND CITY SCHOOL DISTRICT
 CUYAHOGA COUNTY
 SCHEDULE OF FINDINGS AND QUESTIONED COSTS
 OMB CIRCULAR A-133 § .505
 FOR THE FISCAL YEAR ENDED JUNE 30, 2003**

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

Finding Number	2003-003
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(Continued)

District's Response

Beginning with FY06, ECCSD has begun using a detailed appropriation/estimated resource worksheet that compares current year appropriations and carry-over encumbrances yielding the total amount expendable to current year estimated resources and beginning unencumbered balances to yield the total available revenue. This worksheet accompanies all appropriation documents submitted for approval to the Board of Education and subsequently filed with the Cuyahoga County Auditor's office. "Do Not Exceed" (DNE) certificates have been received for all appropriation measures for FY06 and FY07.

Finding Number	2003-004
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Ohio Rev. Code § 5705.41(D)(1) prohibits a subdivision or taxing entity from making any contract or ordering any expenditure of money unless a certificate signed by the fiscal officer is attached thereto. The fiscal officer must certify that the amount required to meet any such contract or expenditure has been lawfully appropriated and is in the treasury, or is in the process of collection to the credit of an appropriate fund free from any previous encumbrance.

There are several exceptions to the standard requirement stated above that a fiscal officer's certificate must be obtained prior to a subdivision or taxing authority entering into a contract or order involving the expenditure of money. The main exceptions are: "then and now" certificates, blanket certificates, and super blanket certificates, which are provided for in sections 5705.41(D)(1) and 5705.41(D)(3), respectively, of the Ohio Revised Code.

1. "Then and Now" certificate – If the fiscal officer can certify that both at the time that the contract or order was made ("then"), and at the time that the fiscal officer is completing the certification ("now"), that sufficient funds were available or in the process of collection, to the credit of a proper fund, properly appropriated and free from any previous encumbrance, the District can authorize the drawing of a warrant for the payment of the amount due. The District has thirty days from the receipt of the "then and now" certificate to approve payment by ordinance or resolution.

Amounts of less than \$3,000 may be paid by the fiscal officer without a resolution or ordinance upon completion of the "then and now" certificate, provided that the expenditure is otherwise lawful. This does not eliminate any otherwise applicable requirement for approval of expenditures by the District.

2. Blanket Certificate – Fiscal officers may prepare "blanket" certificates for a certain sum of money not in excess of an amount established by resolution or ordinance adopted by a majority of the members of the legislative authority against any specific line item account over a period not running beyond the end of the current fiscal year. The blanket certificates may, but need not, be limited to a specific vendor. Only one blanket certificate may be outstanding at one particular time for any one particular line item appropriation.

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

Finding Number	2003-004
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(Continued)

3. Super Blanket Certificate – The District may also make expenditures and contracts for any amount from a specific line-item appropriation account in a specified fund upon certification of the fiscal officer for most professional services, fuel, oil, food items, and any other specific recurring and reasonably predictable operating expense. This certification is not to extend beyond the current year. More than one super blanket certificate may be outstanding at a particular time for any line item appropriation.

A test of 60 expenditures disclosed that 8 (13%) were not certified by the fiscal officer at the time the commitment was incurred and there was no evidence that the District followed the aforementioned exceptions. Failure to properly certify the availability of funds can result in overspending funds and negative cash fund balances.

In addition, while scanning the detailed expenditure report we noted over \$7.7 million in expenditures were made from the classroom facilities project fund in which the certification date on the purchase order was the same as the check date. In these instances, the purchase order was never prepared when the contract was awarded by the Board and prior to the commencement of work, which should have been the case.

Unless the exceptions noted above are used, prior certification is not only required by statute but is a key control in the disbursement process to assure that purchase commitments receive prior approval. To improve controls over disbursements and to help reduce the possibility of the District’s funds exceeding budgetary spending limitations, we recommend that the Treasurer certify that the funds are or will be available prior to obligation by the District. When prior certification is not possible, “then and now” certification should be used.

We recommend the District certify purchases to which section 5705.41(D) applies. The most convenient certification method is to use purchase orders that include the certification language 5705.41(D) requires to authorize disbursements. The fiscal officer should sign the certification at the time the District incurs a commitment, and only when the requirements of 5705.41(D) are satisfied. The fiscal officer should post approved purchase commitments to the proper appropriation code, to reduce the available appropriation.

District’s Response

All purchase orders are signed by the Treasurer and the Superintendent. The Accounts Payable Specialists examine all purchase orders and invoices submitted by the vendor for payment for compliance with this rule. If there would be any purchase orders found to be in non-compliance, they would be returned to the originator for further discussion with subsequent approval by the Board of Education for those items in excess of \$3,000.00. All ECCSD’s purchase orders contain embedded certification language requiring the amount and fund to which the expenditure will apply.

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

Finding Number	2003-005
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Ohio Rev. Code § 3319.088(D) requires nonteaching employees serving as educational assistants to obtain an educational aide permit or an educational paraprofessional license from the State Board of Education for the services to be rendered and prohibits an educational assistant from receiving compensation without such a license. However, there are some exceptions to this requirement. Nonteaching employees whose functions are solely secretarial-clerical and who do not perform other duties as educational assistants are not required to hold a permit or license issued pursuant to this section even though they work under the direction of a teacher.

Ohio Rev. Code § 3319.30 states, in part, that no person shall receive any compensation for the performance of duties as teacher in any school supported wholly or in part by the state or by federal funds who has not obtained a license of qualification for the position from the State Board of Education.

During a test of 23 employees, we noted three educational assistants and one social worker did not have the required license or permit from the State Board of Education and received compensation during fiscal year 2003, contrary to this requirement.

We recommend the District notify the State Board of Education about this matter. Subsequent audits will review if, and how, the District has resolved this matter. Further, we recommend the District develop procedures to ensure all applicable District employees obtain their required licenses from the State Board of Education.

District's Response

ECCSD has established procedures to ensure that all employees, inclusive of non-teaching employees serving as educational assistants, acquire and maintain appropriate licenses. Specifically, employees are to be notified by the Human Resource Director, in writing, when a current license is to expire. Additionally, all persons without a current license are separated from employment with the District until such time that the appropriate license has been acquired. The Human Resource Director, as identified in the audit was terminated due to performance concerns.

The status of the individuals identified in the 2003 audit are as follows:

Employee	Employment Status
Katie Gibson	Hired October 10, 1998. Terminated effective June 2006, due to failure to meet "qualified" status pursuant to the No Child Left Behind Act. Educational Assistant License: July 1, 2004- June 30, 2005.

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 REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS**

(Continued)

Finding Number	2003-005
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(Continued)

District's Response (Continued)

Linda Jackson	Hired August 28, 1995. Currently serving as an educational assistant. Educational Assistant License(s): July 1, 1989-June 30, 1990 July 1, 1990-June 30, 1991 July 1, 1995- June 30, 1999 July 1, 2000- June 30, 2001 July 1, 2003-June 30, 2004 July 1, 2004-June 30, 2005 July 1, 2006-June 30, 2007
Daphne Leatherwood	Hired October 11, 1999. Currently serving as an educational assistant. Educational Assistant License(s): July 1, 1999-June 30,2000 July 1, 2000-June 30, 2001 July 1, 2004-June 30, 2005 July 1, 2005-June 30, 2006 July 1, 2006-June 30, 2007
Toya Owens	Hired September 18, 2000. Terminated effective June 30, 2005. Individual was initially hired with a Social Worker's License. Individual did not have a School Social Worker's License issued by the Ohio Department of Education. Current Superintendent terminated all social workers who did not have proper licenses.

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

Finding Number	2003-006
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Since 1999, the District has been managing a \$100 million classroom facilities renovation project. The project entails demolishing old school buildings and replacing them with new state of the art schools, or modernizing the existing structures and equipment.

The application of generally accepted accounting principles to the District's financial statements, notes and capital assets requires the following:

- Capital assets should be recorded at their historical cost plus ancillary charges such as transportation, installation and site preparation costs;
- Expenditures for major additions and improvements should be capitalized;
- The cost of capital assets should be depreciated over the estimated useful lives of the assets;
- Depreciation expense should be reported in the government-wide financial statements (statement of activities);
- Accumulated depreciation must be reported separately for each major class of depreciated capital assets (e.g., land, building and improvements, equipment and construction-in-progress);
- When capital assets are retired or otherwise disposed of, the cost and accumulated depreciation are removed from the accounts and any resulting gain or loss is included in the results of operations for the respective period; and
- Additions and deletions during the period are to be presented in a format that demonstrates the change between the beginning and ending book values.

The District classifies its major classes of capital assets as land, construction-in-progress, land improvements, buildings and building improvements and equipment.

According to the District's financial statements and reports, over \$10.3 million was spent during fiscal year 2003 on the classroom facilities project and other capital assets. The expenditures related to the demolition and construction of buildings; building improvements; purchases of land and land improvements; and the replacement of old equipment with new equipment. However, the financial statements did not indicate this amount was capitalized and the notes to the financial statements (Note 8 – Capital Assets) presented additions of only \$133,718 to land and \$137,675 to equipment as the only changes in capital assets for the fiscal year. Furthermore, there were no other additions, deletions or changes in the construction-in-progress since the prior year despite the significant changes in the District's ongoing capital asset renovation project. This indicates capital assets may be understated by approximately \$10.1 million and depreciation expense and accumulated depreciation may also be understated by significant amounts. Despite the demolition of buildings and disposal of old equipment the costs and accumulated depreciation were not removed from the account.

According to the District's records, as of June 30, 2003, over \$31 million has been spent on the project that should be reflected in the District's capital assets.

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

Finding Number	2003-006
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(Continued)

Due to the significant changes in the District's capital assets we recommend the District develop a capital asset accounting system that encompasses the following:

- Conduct a physical inventory of all District capital assets. This information should then be entered into the capital asset accounting system and should include such information as the tag number, location of the asset, description of the item, cost, acquisition date, and any other pertinent information.
- Develop forms to be used when assets are acquired, retired or moved to a different location, purchased, moved or deleted. This information should then be entered into the fixed asset accounting system to keep capital assets current.
- Once the physical inventory has been completed, the assets should be reconciled to all expenditures relating to the classroom facilities project to ensure the completeness of capital assets.
- Determine the disposition of all capital assets owned by the District. For the capital assets that were retired or otherwise disposed of, the cost and accumulated depreciation must be removed from the accounts and any resulting gain or loss should be included in the results of operations for the respective period.
- Utilize automated computerized applications in which depreciation expense and accumulated depreciation are calculated.
- Conduct periodic inventory observations.

District's Response

Following considerable conversation with the State Auditors and Cuini & Panichi independent auditors, it was decided that ECCSD would engage a company to conduct a physical inventory of its fixed assets upon completion of the Ohio School Facilities Commission (OSFC) project. The Director of Business Affairs had begun the process of issuing Requests for Proposals (RFP's) but it was decided that it would be wiser to re-state the beginning balances for FY03 going forward. Cuini & Panichi was commissioned to perform the re-statement work. ECCSD intends to implement a fixed asset inventory system upon completion of the OSFC project.

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

Finding Number	2003-007
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Payroll was the largest component of the District’s expenditures and teacher compensation was the largest expenditure. Employment contracts and union agreements were used to formalize the compensation of District employees. Fee schedules included in these documents were used to clarify the compensation of employees and their projected raises. Each teacher’s compensation is based on their education and teaching experience. Step increases given to teachers must be based on teaching experience unless the Board formally approves otherwise on a case by case basis. Step increases given to classified and non-union employees must be based on previous work experience in the District unless the Board formally approves otherwise on a case by case basis.

A test of 60 District employees compensation disclosed 2 instances in which teachers were overcompensated. In both instances the teacher was credited with prior teaching experience even though they had no previous experience. According to Richard Jenkins, Personnel Director one teacher was upgraded a step because of a teacher shortage and the other teacher was upgraded a step because of his or her prior work experience with the U.S. Department of Treasury. In both cases the step upgrade was used as a recruitment incentive.

Since personnel files should contain pertinent information such as salary notifications, signed employee contracts, college transcripts and payroll deduction authorization forms, we reviewed the files and also noted the following:

- 8 instances out of 28 tested in which the salary notification form was not maintained in the employee personnel file.
- 14 instances out of 16 tested in which the employee contacts were not signed-off by the Treasurer, as secretary of the Board, and/or the employee.

When these discrepancies were communicated to the Interim Treasurer, Martha Sisler, the auditors were informed that Ms Sisler had noticed the payroll bank account was out of balance and she had initiated a review of salaries and had also identified similar discrepancies. Ms. Sisler also identified teachers who were underpaid based on their credentials. The preliminary analysis performed by Ms. Sisler indicated there may be as many as 62 teachers who were improperly compensated.

The auditors informed Ms. Sisler, as well as the subsequent Treasurers, that management must review all teacher salaries and determine which ones were over/under compensated. Subsequently, the District retained legal counsel to investigate this issue and to ascertain which employees were improperly compensated.

Based on a review of all teachers compensated by the District from the 2002 through the 2007 fiscal school year by the District’s legal counsel, the District has overpaid some members in the total amount of \$588,180 and underpaid some members in the total amount of \$353,459.

All discrepancies must be addressed and resolved. Further, we recommend that each employee’s personnel file contain all salary notification forms, signed contracts, college transcripts and payroll deduction forms. Secondly, subsequent audits will review if, and how, the District has resolved the issue of the improperly compensated employees. Failure to resolve each individual case may result in possible findings for recovery issued by the Auditor of State.

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

Finding Number	2003-007
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(Continued)

District's Response

The District is currently working with Board Legal Counsel, Pepple and Waggoner, to review ALL employee personnel files to bring resolution to this matter. Additionally, Ohio Education Association Attorney, Kathy McKinley has been apprised of this situation. Upon completion of this review, necessary adjustments will be made relative to this finding.

Finding Number	2003-008
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Timely recognition of cash receipts and disbursements is vital in ascertaining the cash financial position of any entity. Cash balances include cash in bank accounts and other imprest accounts such as payroll. Cash is an asset that is very susceptible to embezzlement and is considered a high risk asset because of its liquidity and its desirability. In order for the cash to be properly monitored and accounted for, most entities perform a monthly bank reconciliation. This reconciliation verifies the cash balance reported in the general ledger agrees to the adjusted balance per the bank statement and it is also used to determine whether all cash receipts and disbursements have been properly recorded.

As of June 30, 2003, the District's cash reconciliation included an unsupported adjustment for \$522,093 to increase the bank balance so it could be reconciled to the book balance. It was also apparent that the reconciliations were incomplete and not performed in a timely manner as each month had an unsupported adjustment. As a result, the District retained the services of outside professionals to perform the reconciliations for fiscal years 2003 and 2004.

A review of the revised reconciliations disclosed numerous errors. The errors and some of the more significant examples are as follow

- The book balance increased from \$23,317,187 to \$23,472,084, an increase of \$154,897;
- Numerous adjustments were identified and posted to the general ledger up to eight months after year end;
- On several occasions, the amount of payroll posted to the books did not agree to the amount wired to the bank account. During April 2003, the posting to the ledger was \$31,328 higher than what was wired to the bank account;
- Bank activity relating to interest and service charges were not posted to the books in a timely manner. In June 2003, an investment matured and the interest earned was \$54,292. However, the amount was not posted to the ledger until January 2004;
- Activity relating to the classroom facilities project was not posted in a timely manner. Since manual checks and wire transfers were utilized to pay the vendors the data must be manually entered into the District's general ledger via a journal entry. The reconciliation identified over \$220,000 in adjustments during fiscal year 2003 for transactions that were reflected in the bank statement that were not booked as of June 30, 2003;
- Checks listed as outstanding had been cashed and cleared the bank account. On February 1, 2003, two checks were issued totaling \$19,574 that actually cleared the bank account in January 2003, a month earlier than the check date. These checks were listed as outstanding as of June 30, 2003;

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

Finding Number	2003-008
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(Continued)

- Deposits made to the bank account were not posted. In April 2003, the Auditor of State wired \$37,098 to the District's bank account but it was not posted until November 2003, seven months later; and
- Checks that were voided were not reversed in the ledger.

We also noted the District could not locate the reconciliations for fiscal year 2003 and had to ask the Auditor of State for their copy. When the auditors determined the District did not know where the fiscal year 2004 reconciliations were, the Auditor of State went to the District and were provided with files the Interim Treasurer had provided management back in August 2004 upon her leaving the District. When the files were reviewed we discovered the 2004 reconciliations were in the files and provided them to the District.

These weaknesses result in unreliable financial reporting, inefficient processes and results in errors and/or irregularities going undetected.

Based on the above internal control weaknesses in the District, we recommend that monthly bank to book reconciliations be performed in a timely manner. Since the District's has a history of difficulty in this area, the District should hire or promote a qualified individual to perform this function. Once performed, the reconciliations should be initialed and dated by the Treasurer indicating her review and approval. The Treasurer should communicate to the Board the reconciliations are complete on a monthly basis to ensure they are done. Finally, the District should discontinue the practice of issuing classroom facilities project expenditures via manual check and wire transfers. Instead, all checks should be system generated checks like any other vendor payments. This will eliminate the obvious inefficiencies that are occurring when reconciling the District's bank accounts. The adjustments described above were not posted to the District's general ledger until after year end and the accompanying financial do not reflect these adjustments.

District's Response

ECCSD has addressed the issue of book to bank reconciliation with the hire of a dedicated employee for this purpose effective January 8, 2007. The District continues to reconcile the monthly activity by proving cash and working with the State Auditor's office on a weekly basis beginning March 7, 2007 to address the years beginning with the month of July 2004. The Treasurer has also commissioned the assistance of the MIS Manager for R.P. Carbone, Construction Manager for the OSFC project to provide reconciliation between their construction records and our book records. The contractor payments beginning with the April 2007 pay applications, will be by done by official ECCSD check, processed with all other vendor payments through a system generated check in a regularly scheduled check run. On March 15, 2007, the senior project manager, M.I.S. Administrator, and Director of Business Operations had been notified and were requested to inform all contractors of this change in procedure and to provide correct "remit to" addresses for future payments. This list has been received by the Treasurer on March 22, 2007 and forwarded to the Accounts Payable Specialist responsible for issuance of the payments.

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3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS
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(Continued)

Title of Finding: Special Tests and Provisions

Finding Number	2003-009
CFDA Title and Number	Title I, CFDA # 84.010
Federal Award Number / Year	C1S102 and C1S103
Federal Agency	U.S. Department of Education
Pass-Through Agency	Ohio Department of Education

Title 1, Section 1120A(c) of ESEA (20 USC Section 6321(c); and 20 USC Section 6394 (c)(2)) requires each School District to develop procedures for complying with the comparability requirements and implement the requirements annually. They must maintain records that are updated biennially documenting compliance with the comparability requirements. The Ohio Department of Education, however, is ultimately responsible for ensuring that School Districts remain in compliance with the comparability requirement

The District did not maintain support for the information reported in the fiscal year 2002 Comparability Report and could not locate the fiscal year 2003 Comparability Report. Since neither the support nor the report could be located the accuracy of the reports can not be determined.

We recommend the annual Comparability Reports and supporting documentation be retained.

District's Response

The Title I Comparability Reports have been completed for FY05 through and including FY07 with assistance from the Ohio Department of Education. The FY06 and FY07 Title I Comparability Reports, including supporting documentation are on file within the Treasurer's office.

Title of Finding: Reporting

Finding Number	2003-010
CFDA Title and Number	Medicaid Assistance Program, CFDA # 93.778
Federal Award Number / Year	NA, 2003
Federal Agency	U.S. Department of Health and Human Services
Pass-Through Agency	Ohio Department of Mental Retardation and Developmental Disabilities

The Ohio Department of Jobs and Family Services medicaid provider agreement, paragraph 5, states providers are to "...maintain all records necessary and in such form so as to fully disclose the extent of services provided and significant business transactions. The provider will maintain such records for a period of seven (7) years from the date of receipt of payment or for six (6) years after any initiated audit is completed and adjudicated whichever is longer."

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3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS
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(Continued)

Finding Number	2003-010
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(Continued)

We noted the District did not maintain supporting documentation for the following sections of the fiscal year 2003 Community Alternative Funding System (CAFS) program Cost Report:

- 1) Professional Service Expenditures (worksheet 2).
- 2) Transportation Expenditures (worksheet 3).
- 3) Statement of Expenditures (Schedule A).
- 4) Units of Service Delivered (Schedule B).
- 5) Revenue Sources (Schedule C).
- 6) Distribution of Title VI-B Funds.
- 7) Rate Setting Worksheets

We recommend that all records, supplemental worksheets and supporting documentation used to prepare the CAFS Cost Report be maintained on file for a period of seven years from the date of receipt of payment or for six years after any initiated audit is completed and adjudicated, whichever is longer.

District's Response

The District currently contracts with Healthcare Process Consulting, Inc. to facilitate filing and maintaining all records and supporting documentation relative to the Community Alternative Funding System. The implementation of this process has addressed concerns as noted in the audit.

Title of Finding: Allowable Cost / Cost Principles

Finding Number	2003-011
CFDA Title and Number	Title I, CFDA # 84.010
Federal Award Number / Year	C1S102 and C1S103
Federal Agency	U.S. Department of Education
Pass-Through Agency	Ohio Department of Education

OMB cost principles Circular A-87 prescribes the cost accounting policies associated with the administration of Federal awards by local government. Federal awards include federal programs and cost type contracts and may be in the form of grants, contracts, and other agreements.

Title I federal guidelines provide that indirect cost may be recovered only to the extent that direct costs are incurred. The indirect cost rate is applied to the amount of allowable expenditures, not the total grant award, in order to determine the indirect cost recovery. The indirect cost reimbursement calculated by the District must be a product of the proper indirect cost rate specified in the rate agreement and the appropriate base in which the rate will be applied to.

Based on the guidelines contained in the Indirect Cost Recovery Plan for Ohio Schools prepared by the Ohio Department of Education (ODE) and a recalculation of the indirect cost reimbursement charged to the Title I program by the District, we determined the program was overcharged \$6,045.

Based on these facts, we are issuing a questioned cost in the amount of \$6,045.

We recommend that indirect costs for the Title I program be calculated in accordance with ODE guidelines and Circular A-87.

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3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS
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(Continued)

Finding Number	2003-011
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(Continued)

District's Response

The Director of Federal Programs, in conjunction with the Assistant Treasurer, ensure that the indirect cost as determined by the Ohio Department of Education is adhered to yearly and appropriately reflected in the District's Title I budget.

Title of Finding: Activities Allowed or Unallowed

Finding Number	2003-012
CFDA Title and Number	Title I, CFDA # 84.010
Federal Award Number / Year	C1S102 and C1S103
Federal Agency	U.S. Department of Education
Pass-Through Agency	Ohio Department of Education

Title I, Section 1115 of ESEA (20 USC 6314) provide that allowable activities include, but are not limited to, instructional programs, counseling, mentoring, other pupil services, college and career awareness and preparation, services to prepare students for the transition from school to work, services to assist preschool children in the transition to elementary school programs, parental involvement activities, and professional staff development. According to the Ohio Department of Education's Assistant Director of Federal Programs, Dr. Rosie Doughty, in general, parent and student incentives are allowable Title I expenditures if they are reasonable and if the District can document the specific students and parents who received these incentives. Expenditures for incentives were included on the District's Schoolwide Budget under the Family/Community Code.

During a test of 60 expenditures we noted 2 expenditures, totaling \$800, in which Title I funds were used to purchase student and parent incentives. For these expenditures, there was no documentation of the names of the students and parents who received these incentives. As a result, the incentives could have been given to ineligible individuals. Furthermore, some of the incentive items purchased were for such items as lip gloss, hydroxycut (diet pills), air fresheners, a microwave, and a camera.

Since the \$800 is based on sampling it is projected to the total population and amounts to \$6,745. Based on these facts, we are issuing a questioned cost in the amount of \$6,745.

We recommend that all Title I expenditures be made in accordance with program guidelines. If the expenditures involve incentives, the expenditures should be reasonable and the District should document the specific students and parents who received them.

District's Response

ECCSD now requires documentation at the building level relative to all students and/or parents who receive incentives purchased through Title I funding. The document includes names, incentive(s) received and date of receipt. Building principals maintain this data at the building level and submit said documentation to the Director of Federal Programs at the end of each school year. Lastly, the employee responsible for the purchases of the non-permissible items as described in the audit will be required to make restitution.

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3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS

(Continued)

Title of Finding: Allowable Cost / Cost Principals

Finding Number	2003-013
CFDA Title and Number	Adult Education- State Grant Program, CFDA # 84.002; Title 1 Education Consolidation Improvement Act, CFDA # 84.010; Education Handicapped Act - 6B, CFDA # 84.027; Special Education – Preschool Grant, CFDA # 84.173; Vocational Education – Basic Grant, CFDA # 84.048; Innovative Educational Program Strategies, CFDA # 84.298; Drug Free Schools, CFDA # 84.186; 21st Century Community Learning Center, CFDA # 84.287; Even Start Family Literacy, CFDA # 84.213; Class Size Reduction Subsidy, CFDA # 84.340; Improving Teacher Quality, Title II-A, CFDA # 84.367; National School Lunch Program, CFDA # 10.555
Federal Award Number / Year	ABS1-2002, ABS1-2002-C, ABS1-2003; C1S1-2002, C1S1-2003, C1SK-2003; 6BEC-2002-P, 6BPM-2003-P, 6BSF-2002-P, 6BSF-2003-P; PGS1-2002-P, PGS1-2003-P, 20A0-2002, 20C1-2002, 20C1-2003; C2S1-2000, C2S1-2001, C2S1-2002, C2S1-2003; DRS1-2001, DRS1-2002, DRS1-2003; T1S1-2003, S215L020110, S287A010059, S287B000254; EVS2-2001, EVS3-2002, EVS4-2003; CRS1-2001, CRS1-2002; TRS1-2003; LLP1-2002, LLP1-2003, LLP4-2002, LLP4-2003
Federal Agency	U.S. Department of Education U.S. Department of Agriculture
Pass-Through Agency	Ohio Department of Education

As reported in finding number 2003-007, teachers were overcompensated or undercompensated based on their education and teaching experience.

District's Response

See District's response to finding 2003-007.

**EAST CLEVELAND CITY SCHOOL DISTRICT
 CUYAHOGA COUNTY
 SCHEDULE OF PRIOR AUDIT FINDINGS
 OMB CIRCULAR A-133 § .505
 FOR THE FISCAL YEAR ENDED JUNE 30, 2003**

Finding Number	Finding Summary	Fully Corrected?	Not corrected, partially corrected, different corrective action taken; finding no longer valid; Explain
2002-001	The Board approved and issued all required "412" certificates but various certificates were not signed by the required parties until months or even years after the Board approved the expenditure, contract or appropriation, contrary to ORC § 5705.412.	Yes	
2002-002	The District issued bonded debt but did not provide the Nationally Recognized Municipal Security Information Repositories (NRMSIRs) and the State Information Depository (SID) their annual financial information and operating data or timely notice of failure to provide the required financial information as required by 17 C.F.R. Section 240.15c2-12.	No	Repeated in finding 2003-001.
2002-003	The general fund had million dollar cash deficits several months of the year with a maximum of (\$4,123,933) in April 2002, contrary to ORC § 5705.10.	No	Repeated in finding 2003-002.
2002-004	A test of 60 expenditures disclosed 6 instances in which obligations were entered into prior to obtaining the Treasurers certification of funds, contrary to ORC § 5705.41(D).	No	Repeated in finding 2003-004.
2002-005	Numerous funds had expenditures plus encumbrances in excess appropriations at March 31, 2002 and June 30, 2002, contrary to ORC § 5705.41(B)(D).	No	Repeated in finding 2003-003.
2002-006	The Board of Education approved an advance of \$1,000,000 from the bond retirement fund, a restricted fund, to the general fund, contrary to ORC 5705.10.	Yes	
2002-007	Numerous funds had appropriations in excess of estimated revenue at March 31, 2002 and June 30, 2002, contrary to ORC § 5705.39.	Yes	
2002-008	We noted that \$17,442.03 in interest earnings was credited to the general fund instead of the bond retirement fund, contrary to ORC § 135.21 and § 5705.10.	Yes	
2002-009	Numerous collections from extracurricular/student activities, classroom fees and tuition fees. were not deposited in the time frame, contrary to ORC § 9.38.	No	Partially corrected. Reported in the management letter due to fewer violations.

**EAST CLEVELAND CITY SCHOOL DISTRICT
 CUYAHOGA COUNTY
 SCHEDULE OF PRIOR AUDIT FINDINGS
 OMB CIRCULAR A-133 § .505
 FOR THE FISCAL YEAR ENDED JUNE 30, 2003
 (CONTINUED)**

Finding Number	Finding Summary	Fully Corrected?	Not corrected, partially corrected, different corrective action taken; finding no longer valid; Explain
2002-010	The Board approved the hiring of a Project Manager, Dodson & Associates, Inc. (D&AI), for the Permanent Improvement Project, at a cost of \$72.00 per hour, not to exceed \$125,000.00. However, there was no evidence of a contract with D&AI for the period January 1, 2002 through June 30, 2003. While the minutes are indicative of the District's intent on hiring D&AI, the District failed to enter into a formal agreement, contrary to ORC § 3313.33.	Yes	
2002-011	The Board was not reviewing budgetary information until April 2002. When they began reviewing the budgetary information they failed to address the obvious issues enumerated throughout the audit report.	Yes	
2002-012	A review of the District's outstanding encumbrances as of June 30, 2002 disclosed several purchase orders no longer represented valid commitments and should have been cancelled and removed from the outstanding encumbrance listing. Among those significant purchase orders that should have been cancelled were two in the capital projects fund, totaling \$2,429,259, that were for building construction projects that were already completed.	Yes	
2002-013	Numerous problems were encountered during a review of the cash cycle due to untimely reconciliations and posting.	No	Repeated in finding 2003-008.
2002-014	The District is not following procedures to minimize the time elapsing between the transfers of funds from the U.S. Treasury and disbursement, contrary to 14. 34 CFR 80.20 (b)(7) and 34 CFR 80.21.	Yes	



Mary Taylor, CPA
Auditor of State

EAST CLEVELAND CITY SCHOOL DISTRICT
CUYAHOGA COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

CERTIFIED
FEBRUARY 3, 2009