



Mary Taylor, CPA
Auditor of State

**EAST CLEVELAND CITY SCHOOL DISTRICT
CUYAHOGA COUNTY**

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Mary Taylor, CPA

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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, 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, 2004, 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.

Ohio Administrative Code § 117-2-03(B) requires the District to prepare its annual financial report in accordance with accounting principles generally accepted in the United States of America. However, as discussed in Note 2, the District revised its accounting basis during the year ending June 30, 2004. The District previously prepared its statements following accounting principles generally accepted in the United States of America. The accompanying financial statements and notes now follow the cash accounting basis. This is a comprehensive accounting basis other than generally accepted accounting principles. The accompanying financial statements and notes omit assets, liabilities, fund equities, and disclosures that, while material, we cannot determine at this time. Because of this change in basis, as described in Note 3 to the financial statements, the District restated its July 1, 2003 fund balances for its Governmental Activities and Business-Type Activities each major fund, and the aggregate remaining fund information.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective cash financial position 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, as of June 30, 2004, and the respective changes in cash financial position and the respective budgetary comparison for the General Fund thereof for the year then ended in conformity with the basis of accounting Note 2 describes.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 16, 2010 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.

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 require. 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 expenditures 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 expenditures 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

November 16, 2010

**East Cleveland City School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2004
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, 2004. 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 2004 are as follows:

- In total, net assets equaled \$24,560,360. Net assets of governmental activities equaled \$24,530,343, which represents a 99.88% of total net assets. Net assets of business-type activities equaled \$30,017 or .12% of total net assets.
- General revenues accounted for \$ 44,796,860 in revenue or 60.3 % of all revenues. Program specific revenues in the form of charges for services and sales, grants and contributions accounted for \$29,367,261 or 39.5% of total revenues of \$74,254,391. Transfers and advances made up the remaining .2%.
- The District had \$72,745,667 in expenses related to governmental activities; only \$29,353,826 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 \$44,796,860 were adequate to provide for these programs.
- The District had \$124,174 in expenses related to business-type activities; a total of \$13,435 was offset by program specific charges for services, grants and contributions. General revenue relates to a transfer from Governmental Activities of \$90,000. Total revenues were not adequate to provide for these programs by \$20,739 resulting in a decrease to net assets from \$50,756 to \$30,017.
- The District's major governmental funds are the general fund and the classroom facilities capital projects funds fund. The general fund had \$45,109,541 in revenues and other financing sources and \$46,061,754 in expenditures and other financing uses. The general fund's fund balance decreased \$952,213 from \$2,820,994 to \$1,868,781 on a cash basis. The classroom facilities capital projects fund had \$12,720,211 in revenues and other financing sources and \$10,094,239 in expenditures and other financing uses. The fund balance increased \$2,625,972 from \$14,593,363 to \$17,219,335 on a cash basis.

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.

Report Components

The statement of net assets and statement of activities provide information about the cash activities of the District as a whole.

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Fund financial statements provide a greater level of detail. Funds are created and maintained on the financial records of the District as a way to segregate money whose use is restricted to a particular specified purpose. These statements present financial information by fund, presenting funds with the largest balances or most activity in separate columns.

The notes to the financial statements are an integral part of the government-wide and fund financial statements and provide expanded explanation and detail regarding the information reported in the statements.

Basis of Accounting

The basis of accounting is a set of guidelines that determine when financial events are recorded. The District has elected to present its financial statements on a modified cash basis of accounting. This basis of accounting is a basis of accounting other than generally accepted accounting principles. Under the District's modified cash basis of accounting, receipts and disbursements are recorded when cash is received or paid.

As a result of using the modified cash basis of accounting, certain assets and their related revenues (such as accounts receivable) and certain liabilities and their related expenses (such as accounts payable) are not recorded in the financial statements. Therefore, when reviewing the financial information and discussion within this report, the reader must keep in mind the limitations resulting from the use of the modified cash basis of accounting.

Reporting the Government as a Whole

The Statement of Net Assets and Statement of Activities

The statement of net assets and the statement of activities reflect how the District did financially during 2004, within the limitations of modified cash basis accounting. The statement of net assets presents the cash balances and investments of the governmental and business-type activities of the District at year end. The statement of activities compares cash disbursements with program receipts for each governmental program and business-type activity. Program receipts include charges paid by the recipient of the program's goods or services and grants and contributions restricted to meeting the operational or capital requirements of a particular program. General receipts are all receipts not classified as program receipts. The comparison of cash disbursements with program receipts identifies how each governmental function or business-type activity draws from the District's general receipts.

These statements report the District's cash position and the changes cash position. Keeping in mind the limitations of the modified cash basis of accounting, you can think of these changes as one way to measure the District's financial health. Over time, increases or decreases in the District's cash position is one indicator of 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.

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Unaudited**

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 funds of the District are split into three categories: governmental, proprietary and fiduciary.

Governmental Funds

Most of the District's activities are reported in governmental funds. The governmental fund financial statements provide a detailed view of the District's governmental operations and the basic services it provides. Governmental fund information helps determine whether there are more or less financial resources that can be spent to finance the District's programs. The District's significant governmental funds are presented on the financial statements in separate columns. The information for nonmajor funds (funds whose activity or balances are not large enough to warrant separate reporting) is combined and presented in total in a single column. The District's only major governmental fund is the General Fund. The programs reported in governmental funds are closely related to those reported in the governmental activities section of the entity-wide statements.

Proprietary Funds

When the District charges customers for the services it provides, these services are generally reported in proprietary funds. When the services are provided to the general public, the activity is reported as an enterprise fund. The District has two enterprise funds, the uniform school supplies fund and the adult and community education fund. When the services are provided to other departments of the District, the service is reported as an internal service fund. The District has one internal service fund to account for rotary activities.

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 25. These activities are excluded from the District's other financial statements because the resources cannot be utilized by the District to finance its operations.

**East Cleveland City School District
Management's Discussion and Analysis
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Unaudited**

The District as a Whole

The Statement of Net Assets provides the perspective of the District as a whole. The table below provides a summary of the District's net assets for 2004 compared to 2003 on a modified cash basis.

**Table 1
Net Assets**

	<u>Governmental Activities</u>		<u>Business-Type Activities</u>		<u>Total</u>	
	<u>2004</u>	<u>2003</u>	<u>2004</u>	<u>2003</u>	<u>2004</u>	<u>2003</u>
Assets:						
Cash and cash equivalents	\$ <u>24,530,343</u>	\$ <u>23,209,084</u>	\$ <u>30,017</u>	\$ <u>50,756</u>	\$ <u>24,560,360</u>	\$ <u>23,259,840</u>
Total assets	<u>24,530,343</u>	<u>23,209,084</u>	<u>30,017</u>	<u>50,756</u>	<u>24,560,360</u>	<u>23,259,840</u>
Net assets:						
Restricted for:						
Debt service	1,202,993	1,101,989	-	-	1,202,993	1,101,989
Capital projects	17,333,181	14,640,245	-	-	17,333,181	14,640,245
Other purposes	4,908,420	4,621,877	-	-	4,908,420	4,621,877
Unrestricted	<u>1,085,749</u>	<u>2,844,973</u>	<u>30,017</u>	<u>50,756</u>	<u>1,115,766</u>	<u>2,895,729</u>
Total net assets	\$ <u>24,530,343</u>	\$ <u>23,209,084</u>	\$ <u>30,017</u>	\$ <u>50,756</u>	\$ <u>24,560,360</u>	<u>23,259,840</u>

As mentioned previously, net assets of governmental activities increased \$1,321,259 or 5.69% during 2004. The primary reasons contributing to the increases in cash balances are as follows:

- General revenues accounted for \$ 44,796,860 in revenue or 60.3 % of all revenues. Program specific revenues in the form of charges for services and sales, grants and contributions accounted for \$29,367,261 or 39.5% of total revenues of \$74,254,391. Transfers and advances made up the remaining .2%.
- The District had \$72,745,667 in expenses related to governmental activities; only \$29,353,826 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 \$44,796,860 were adequate to provide for these programs.

During 2004 the net assets of the business-type activities decreased by \$20,739 or 40.86%. The primary reasons contributing to the decreases in cash balances are as follows:

- The District had \$124,174 in expenses related to business-type activities; a total of \$13,435 was offset by program specific charges for services, grants and contributions. General revenue relates to a transfer from Governmental Activities of \$90,000. Total revenues were not adequate to provide for these programs by \$20,739 resulting in a decrease to net assets from \$50,756 to \$30,017.

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Table 2 reflects changes in net assets on a modified cash basis in fiscal year 2004 for governmental activities, business-type activities and the total primary government.

**Table 2
Changes in Net Assets**

	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Total</u>
Cash Receipts:			
Program cash receipts:			
Charges for services	\$ 1,351,366	\$ 197	\$ 1,351,563
Operating grants	<u>28,002,460</u>	<u>13,238</u>	<u>28,015,698</u>
Total program cash receipts	<u>29,353,826</u>	<u>13,435</u>	<u>29,367,261</u>
General cash receipts:			
Property taxes	10,950,734	-	10,950,734
Grants and entitlements	33,253,336	-	33,253,336
Investment earnings	326,645	-	326,645
Other	261,565	-	261,565
Gain on sale of assets	<u>4,580</u>	<u>-</u>	<u>4,580</u>
Total general cash receipts	44,796,860	-	44,796,860
Advances	270	-	270
Transfers - In	<u>-</u>	<u>90,000</u>	<u>90,000</u>
Total cash receipts	<u>74,150,956</u>	<u>103,435</u>	<u>74,254,391</u>
Cash disbursements:			
Program cash disbursements:			
Instruction:			
Regular	19,430,376	-	19,430,376
Special	9,162,798	-	9,162,798
Adult	104,725	-	104,725
Vocational	1,555,485	-	1,555,485
Other	2,161,285	-	2,161,285
Support services			
Pupil	3,020,589	-	3,020,589
Instructional staff	3,906,198	-	3,906,198
Board of education	145,618	-	145,618
Administration	4,772,600	-	4,772,600
Fiscal	1,042,004	-	1,042,004
Business	434,524	-	434,524
Operation and maintenance – plant	5,485,734	-	5,485,734
Pupil transportation	996,222	-	996,222
Central services	2,266,193	-	2,266,193
Food service	2,280,391	-	2,280,391
Operations of non-instruction services	693,544	-	693,544
Extracurricular activities	506,285	-	506,285
Facilities acquisition and construction	10,138,534	-	10,138,534
Debt service			
Principal	4,259,000	-	4,259,000
Interest and fiscal charges	383,562	-	383,562
Uniform school supplies	-	6,362	6,362
Adult community education	<u>-</u>	<u>117,812</u>	<u>117,812</u>
Total cash disbursements before transfers	72,745,667	124,174	72,869,841
Transfers - Out	<u>84,030</u>	<u>-</u>	<u>84,030</u>
Total cash disbursements	<u>72,829,697</u>	<u>124,174</u>	<u>72,953,871</u>
Change in net assets	\$ <u>1,321,259</u>	\$ <u>(20,739)</u>	\$ <u>1,300,520</u>

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Prior year information is not available for comparison, due to prior year statements being presented on a GAAP basis and current year on a modified cash basis. Total governmental expenses of \$72,829,697 were primarily offset by program revenues of \$29,353,826 and general revenues of \$44,796,860. Program revenues supported 40.3% of the total governmental expenses.

The primary sources of general revenues are from property taxes and grants and entitlements. These two revenue sources represent 59.6% of total governmental revenue. Property taxes support 15% of total expenses, while grants and entitlements supported 44.7% of total expenses. These two revenue sources accounted for 59.7% of total governmental expenditures.

Governmental Activities

If you look at the Statement of Activities on page 14, you will see that the first column lists the major services provided by the District. The next column identifies the costs of providing these services. The major program disbursements for governmental activities are for instruction and support services, which account for 44.6% and 30.3 % of all governmental disbursements, respectively. Facilities acquisition and construction also represents a significant cost, about 13.9%. The next three columns of the Statement entitled Program Receipts identify amounts paid by people who are directly charged for the services and grants received by the District that must be used to provide a specific service. The net Receipts (Disbursement) column compares the program receipts to the cost of the service. This "net cost" amount represents the cost of the service which ends up being paid from money provided by local taxpayers. These net costs are paid from the general receipts which are presented at the bottom of the Statement. A comparison between the total cost of services and the net cost is presented in Table 3.

**East Cleveland City School District
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Unaudited**

**Table 3
Total Cost of Program Services**

	<u>Governmental Activities</u>	
	<u>Total Cost of Services</u>	<u>Net Cost of Services</u>
Program cash disbursements:		
Instruction:		
Regular	\$ 19,430,376	\$ (9,642,537)
Special	9,162,798	(3,051,786)
Adult	104,725	(104,725)
Vocational	1,555,485	(1,371,390)
Other	2,161,285	(2,158,285)
Support services:		
Pupil	3,020,589	(2,976,228)
Instructional staff	3,906,198	(3,626,801)
Board of education	145,618	12,354,382
Administration	4,772,600	(4,772,600)
Fiscal	1,042,004	(1,042,004)
Business	434,524	(434,524)
Operation and maintenance – plant	5,485,734	(5,485,734)
Pupil transportation	996,222	(996,222)
Central	2,266,193	(2,118,428)
Food service operations	2,280,391	(2,036,272)
Operations of non-instructional services	693,544	(665,793)
Extracurricular activities	506,285	(506,285)
Facilities acquisition and construction	10,138,534	(10,114,047)
Debt service		
Principal	4,259,000	(4,259,000)
Interest and fiscal charges	<u>383,562</u>	<u>(383,562)</u>
Total cash disbursements	\$ <u>72,745,667</u>	\$ <u>(43,391,841)</u>

Prior year information is not available for comparison, due to prior year statements being presented on a GAAP basis and current year on a modified cash basis.

The dependence upon tax revenues during fiscal year 2004 for governmental activities is apparent, as 50.4% of 2004 instruction activities are supported through taxes and other general revenues. For all governmental activities, general revenue support was 59.6% in 2004. 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 and 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 \$13,435 and expenses of \$124,174 for fiscal year 2004. The uniform supplies operations had revenues of \$197 and expenses of \$6,362. The adult and community education operations had revenues of \$13,238 and expenses of \$117,812. This resulted in a total decrease to net assets for the fiscal year from \$50,756 to \$30,017. 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 \$24,482,422. The Table below reflects the fund balances as of June 30, 2004 and June 30, 2003.

	Fund Balance <u>June 30, 2004</u>	Fund Balance <u>June 30, 2003</u>	Increase <u>(Decrease)</u>
General	\$ 1,868,781	\$ 2,820,994	\$ (952,213)
Classroom Facilities	17,219,335	14,593,363	2,625,972
Other Governmental	<u>5,394,306</u>	<u>5,770,749</u>	<u>(376,443)</u>
Total	\$ <u>24,482,422</u>	\$ <u>23,185,106</u>	\$ <u>1,297,316</u>

The District's general fund included the following revenue activity. The table that follows assists in illustrating the revenues of the general fund.

	2004 <u>Amount</u>
<u>Revenues</u>	
Taxes	\$ 10,068,590
Interest Earnings	106,884
Intergovernmental	32,603,935
Other Revenue	<u>1,184,674</u>
Total	\$ <u>43,964,083</u>

The District anticipates tax collections will be less in fiscal year 2005 than in fiscal year 2004.

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

	2004 <u>Amount</u>
<u>Expenditures by Category</u>	
Instruction	\$ 24,415,166
Support Services	16,774,096
Capital Outlay	48,213
Extracurricular Activities	364,279
Principal Payment	<u>3,849,000</u>
Total	\$ <u>45,450,754</u>

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Management's Discussion and Analysis
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The most significant expense category was in the area of instruction. This expense mainly relates to 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 was \$47,787,467, while actual expenditures of \$47,302,257 did not exceed the final budget by \$485,210. Original appropriations were not amended due to changes in key staff members.

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.

Capital Assets and Debt Administration

Capital Assets

The District does not report capital assets as the acquisitions are recorded as disbursements when paid.

Debt

At June 30, 2004, the District's outstanding debt included \$8,645,000 in general obligation bonds issued for classroom facility improvements, and \$3,849,000 in Ohio State Solvency Notes to assist the District in their operations. For further information regarding the District's debt, refer to Note 7 to the basic financial statements.

Current Financial Related Activities

East Cleveland School District has continued to maintain services to its students, parents and community. The Board of Education and administration closely monitor its revenues and expenditures in accordance with its financial forecast.

The financial future of the School District is not without its challenges. These challenges are internal and external in nature. The internal challenges will continue to exist as the School District must rely heavily on local property taxes to fund its operations. External challenges continue to evolve as the federal, state and local funding policies dictate.

**East Cleveland City School District
Management's Discussion and Analysis
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The School District relies heavily on its taxpayers to support its operations. The School District last passed a continuing operating levy in 1997. The School District has communicated to the community they rely upon their support for the majority of its operations. The community also realizes the income generated by local levies remains relatively constant, therefore, forcing the School District to come back to the voters to ask for additional support.

East Cleveland School District has not anticipated any meaningful growth in state revenue. With 24 percent of the general revenues for the School District coming from local tax payers, one can see the significant impact this change would have on the School District and ultimately, the residential taxpayers.

As a result of the challenges mentioned above, it is imperative the School District's management continue to carefully and prudently plan in order to provide the resources required to meet changing educational needs.

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

Statement of Net Assets – Modified Cash Basis

June 30, 2004

	Primary Government		Total
	Governmental Activities	Business - Type Activities	
Assets:			
Equity in pooled cash and cash equivalents	\$ <u>24,530,343</u>	\$ <u>30,017</u>	\$ <u>24,560,360</u>
Total assets	<u>24,530,343</u>	<u>30,017</u>	<u>24,560,360</u>
Net assets:			
Restricted for:			
Capital projects	17,333,181	-	17,333,181
Debt Service	1,202,993	-	1,202,993
Other purposes	4,908,420	-	4,908,420
Unrestricted	<u>1,085,749</u>	<u>30,017</u>	<u>1,115,766</u>
Total net assets	\$ <u>24,530,343</u>	\$ <u>30,017</u>	\$ <u>24,560,360</u>

The Notes to the Basic Financial Statements are an Integral Part of this Statement

East Cleveland City School District

Statement of Activities – Modified Cash Basis

For The Fiscal Year Ended June 30, 2004

	Cash Disbursements	Program Cash Receipts	
		Charges for Services	Operating Grants and Contributions
Governmental activities:			
Instruction:			
Regular education	\$ 19,430,376	\$ 7,362	\$ 9,780,477
Special education	9,162,798	1,149,561	4,961,451
Adult	104,725	-	-
Vocational education	1,555,485	-	184,095
Other	2,161,285	-	3,000
Support services:			
Pupil	3,020,589	25,020	19,341
Instructional staff	3,906,198	-	279,397
Board of education	145,618	-	12,500,000
Administration	4,772,600	-	-
Fiscal	1,042,004	-	-
Business	434,524	-	-
Operations and maintenance - plant	5,485,734	-	-
Pupil transportation	996,222	-	-
Central services	2,266,193	-	147,765
Food service operations	2,280,391	117,185	126,934
Operations and non-instructional services	693,544	27,751	-
Extracurricular activities	506,285	-	-
Facilities acquisition	10,138,534	24,487	-
Debt service:			
Principal	4,259,000	-	-
Interest and fiscal charges	<u>383,562</u>	<u>-</u>	<u>-</u>
Total governmental activities	<u>72,745,667</u>	<u>1,351,366</u>	<u>28,002,460</u>
Business-type activities:			
Uniform school supplies	6,362	197	-
Adult and community education	<u>117,812</u>	<u>-</u>	<u>13,238</u>
Total business-type activities	<u>124,174</u>	<u>197</u>	<u>13,238</u>
Totals	\$ <u>72,869,841</u>	\$ <u>1,351,563</u>	\$ <u>28,015,698</u>

General cash receipts:
 Property taxes levies for:
 General purpose
 Grant and entitlements not restricted to
 specific programs
 Investment earnings
 Gain on sale of assets
 Miscellaneous
 Total general cash receipts
 Transfers
 Advances
 Total general cash receipts and transfers and advances

Change in net assets

Net assets at, beginning of year, restated

Net assets at, end of year

The Notes to the Basic Financial Statements are an Integral Part of this Statement

<u>Primary Government</u>		
<u>Governmental Activities</u>	<u>Business - Type Activities</u>	<u>Total</u>
\$ (9,642,537)	\$ -	\$ (9,642,537)
(3,051,786)	-	(3,051,786)
(104,725)	-	(104,725)
(1,371,390)	-	(1,371,390)
(2,158,285)	-	(2,158,285)
(2,976,228)	-	(2,976,228)
(3,626,801)	-	(3,626,801)
12,354,382	-	12,354,382
(4,772,600)	-	(4,772,600)
(1,042,004)	-	(1,042,004)
(434,524)	-	(434,524)
(5,485,734)	-	(5,485,734)
(996,222)	-	(996,222)
(2,118,428)	-	(2,118,428)
(2,036,272)	-	(2,036,272)
(665,793)	-	(665,793)
(506,285)	-	(506,285)
(10,114,047)	-	(10,114,047)
(4,259,000)	-	(4,259,000)
<u>(383,562)</u>	<u>-</u>	<u>(383,562)</u>
<u>(43,391,841)</u>	<u>-</u>	<u>(43,391,841)</u>
-	(6,165)	(6,165)
<u>-</u>	<u>(104,574)</u>	<u>(104,574)</u>
<u>-</u>	<u>(2,147,011)</u>	<u>(2,147,011)</u>
<u>(43,391,841)</u>	<u>(2,147,011)</u>	<u>(43,502,580)</u>
10,950,734	-	10,950,734
33,253,336	-	33,253,336
326,645	-	326,645
4,580	-	4,580
<u>261,565</u>	<u>-</u>	<u>261,565</u>
44,796,860	-	44,796,860
(84,030)	90,000	5,970
270	-	270
<u>44,713,100</u>	<u>90,000</u>	<u>44,803,100</u>
1,321,259	(20,739)	1,300,520
<u>23,209,084</u>	<u>50,756</u>	<u>23,259,840</u>
\$ <u>24,530,343</u>	\$ <u>30,017</u>	\$ <u>24,560,360</u>

East Cleveland City School District

Statement of Assets and Fund Balances – Modified Cash Basis Governmental Funds

June 30, 2004

	<u>General</u>	<u>Classroom Facilities Grant</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Assets:				
Equity in pooled cash and cash equivalents	\$ <u>1,868,781</u>	\$ <u>17,219,335</u>	\$ <u>5,394,306</u>	\$ <u>24,482,422</u>
Total assets	\$ <u>1,868,781</u>	\$ <u>17,219,335</u>	\$ <u>5,394,306</u>	\$ <u>24,482,422</u>
Fund balances:				
Reserved for encumbrances	\$ 1,240,502	\$ 22,355,401	\$ 1,289,261	\$ 24,885,164
Reserved for textbooks	783,032	-	-	783,032
Unreserved; undesignated (deficit) for:				
General fund	(154,753)	-	-	(154,753)
Special revenue funds	-	-	4,105,045	4,105,045
Capital projects funds	-	(5,136,066)	-	(5,136,066)
Total fund balances	\$ <u>1,868,781</u>	\$ <u>17,219,335</u>	\$ <u>5,394,306</u>	\$ <u>24,482,422</u>

The Notes to the Basic Financial Statements are an Integral Part of this Statement

East Cleveland City School District

Reconciliation of Total Governmental Fund Balances to Net Assets of Governmental Activities

June 30, 2004

Total Governmental Funds Balances \$ 24,482,422

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

Internal Service Funds are used by management to charge the costs of certain activities, such as insurance to individual funds. The assets of the Internal Service Funds are included in Governmental Activities in the Statement of Net Assets.

47,921

Net assets of governmental activities \$ 24,530,343

The Notes to the Basic Financial Statements are an Integral Part of this Statement

East Cleveland City School District

Statement of Cash Receipts, Disbursements and Changes in Fund Balances – Modified Cash Basis Governmental Funds

For The Fiscal Year Ended June 30, 2004

	General	Classroom Facilities Grant	Other Governmental Funds	Total Governmental Funds
Cash receipts:				
Taxes	\$ 10,068,590	\$ -	\$ 882,144	\$ 10,950,734
Intergovernmental	32,603,935	12,500,000	15,297,901	60,401,836
Tuition and fees	1,149,561	-	-	1,149,561
Earnings on investments	106,884	219,761	-	326,645
Food service	-	-	116,723	116,723
Extracurricular activities	-	-	40,429	40,429
Classroom materials and fees	7,362	-	-	7,362
Miscellaneous	27,751	450	899,844	928,045
Total cash receipts	<u>43,964,083</u>	<u>12,720,211</u>	<u>17,237,041</u>	<u>73,921,335</u>
Cash disbursements:				
Instruction:				
Regular education	14,737,027	-	4,684,562	19,421,589
Special education	6,133,032	-	3,017,724	9,150,756
Adult	-	-	104,725	104,725
Vocational education	1,402,175	-	153,310	1,555,485
Other	2,142,932	-	-	2,142,932
Support Services:				
Pupils	1,847,122	-	1,173,467	3,020,589
Instructional staff	1,637,238	-	2,268,960	3,906,198
Board of education	145,618	-	-	145,618
Administration	3,853,899	-	918,701	4,772,600
Fiscal services	988,202	3,918	49,884	1,042,004
Business	434,524	-	-	434,524
Operations and maintenance – plant	4,716,526	-	769,208	5,485,734
Pupil transportation	950,524	-	45,698	996,222
Central services	2,182,819	-	83,374	2,266,193
Food service operations	-	-	2,280,391	2,280,391
Operations of non-instructional services	17,624	-	675,920	693,544
Extracurricular activities:				
Academic and subject oriented	79,644	-	1,170	80,814
Sports oriented	268,822	-	139,090	407,912
Co-curricular	15,813	-	1,746	17,559
Capital Outlay:				
Site improvement services	3,153	-	-	3,153
Other facilities acquisition and construction	45,060	10,090,321	-	10,135,381
Debt services:				
Principal	3,849,000	-	410,000	4,259,000
Interest and fiscal charges	-	-	383,562	383,562
Total cash disbursements	<u>45,450,754</u>	<u>10,094,239</u>	<u>17,161,492</u>	<u>72,706,485</u>

Continued

The notes to the basic financial statements are an integral part of this statement

East Cleveland City School District

Statement of Cash Receipts, Disbursements and Changes in Fund Balances – Modified Cash Basis Governmental Funds (continued)

For The Fiscal Year Ended June 30, 2004

	<u>General</u>	<u>Classroom Facilities Grant</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Total excess of cash receipts over (under) cash disbursements	<u>(1,486,671)</u>	<u>2,625,972</u>	<u>75,549</u>	<u>1,214,850</u>
Other financing sources (uses):				
Proceeds from the sale of capital assets	4,580	-	-	4,580
Advances – in	946,472	-	371,000	1,317,472
Transfers – in	4,701	-	152,180	156,881
Refund of prior year disbursements	189,705	-	305	190,010
Advances – out	(371,000)	-	(946,202)	(1,317,202)
Transfers – out	(240,000)	-	(911)	(240,911)
Refund of prior year receipts	-	-	<u>(28,364)</u>	<u>(28,364)</u>
Total other financing sources (uses)	<u>534,458</u>	<u>-</u>	<u>(451,992)</u>	<u>82,466</u>
Net change in fund balance	(952,213)	2,625,972	(376,443)	1,297,316
Fund balance at beginning of year, restated	<u>2,820,994</u>	<u>14,593,363</u>	<u>5,770,749</u>	<u>23,185,106</u>
Fund balance at end of year	\$ <u>1,868,781</u>	\$ <u>17,219,335</u>	\$ <u>5,394,306</u>	\$ <u>24,482,422</u>

The notes to the basic financial statements are an integral part of this statement

East Cleveland City School District

Reconciliation of the Statement of Cash Receipts, Disbursements and Changes in Fund Balances of Governmental Funds to the Statement of Activities

For The Fiscal Year Ended June 30, 2004

Net Change in Fund Balances – Total Governmental Funds \$ 1,297,316

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

Internal Service Funds are used by management to charge to costs of certain activities, such as insurance to individual funds. The net receipts (disbursements) of the Internal Service Funds are reported with Governmental Activities.

23,943

Change in Net Assets of Governmental Activities \$ 1,321,259

The notes to the basic financial statements are an integral part of this statement

East Cleveland City School District

Statement of Cash Receipts, Disbursements, and Changes in Fund Balances Budget and Actual – Budget Basis - General Fund

For The Fiscal Year Ended June 30, 2004

	Budget		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
Cash Receipts:				
Taxes	\$ 11,845,350	\$ 12,248,965	\$ 10,068,590	\$ (2,180,375)
Earnings on investments	101,115	102,752	106,884	4,132
Classroom materials and fees	6,965	7,077	7,362	285
Tuition and fees	1,087,511	1,105,116	1,149,561	44,445
Miscellaneous	26,253	26,678	27,750	1,072
Intergovernmental	30,964,776	31,466,044	32,603,935	1,137,891
Total cash receipts	<u>44,031,970</u>	<u>44,956,632</u>	<u>43,964,082</u>	<u>(992,550)</u>
Cash disbursements:				
Instruction:				
Regular	15,294,542	15,294,542	15,139,250	155,292
Special	6,365,050	6,365,050	6,300,423	64,627
Vocational	1,455,220	1,455,220	1,440,445	14,775
Other	2,224,001	2,224,001	2,201,420	22,581
Support service:				
Pupils	1,917,000	1,917,000	1,897,536	19,464
Instructional staff	1,703,890	1,703,890	1,681,924	21,966
Board of education	151,127	151,127	149,592	1,535
Administration	3,999,696	3,999,696	3,959,085	40,611
Fiscal services	1,025,587	1,025,587	1,015,173	10,414
Business	450,962	450,962	446,384	4,578
Operation and maintenance – plant	4,894,956	4,894,956	4,845,256	49,700
Pupil transportation	986,483	986,483	976,467	10,016
Central	2,265,397	2,265,397	2,242,395	23,002
Operations of non-instructional services	18,291	18,291	18,105	186
Extracurricular:				
Academic and subject oriented	82,657	82,657	81,818	839
Sports oriented	278,992	278,992	276,159	2,833
Co-curricular	16,411	16,411	16,244	167
Facilities acquisition and construction:				
Other facilities acquisition and construction	50,036	50,036	49,529	507
Repayment of debt	3,994,611	3,994,611	3,954,052	40,559
Total cash disbursements	<u>47,174,909</u>	<u>47,174,909</u>	<u>46,691,257</u>	<u>483,652</u>
Total excess of cash receipts over (under) cash disbursements	<u>(3,142,939)</u>	<u>(2,218,277)</u>	<u>(2,727,175)</u>	<u>(508,898)</u>

Continued

The notes to the basic financial statements are an integral part of this statement

East Cleveland City School District

Statement of Cash Receipts, Disbursements, and Changes in Fund Balances Budget and Actual – Budget Basis - General Fund

For The Fiscal Year Ended June 30, 2004

	Budget		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
Other financing sources (uses):				
Proceeds from sale of capital assets	4,333	4,403	4,580	177
Transfers – in	4,447	4,519	4,701	182
Advances – in	895,385	909,880	946,473	36,593
Refund of prior year disbursements	179,465	182,371	189,705	7,334
Advances – out	(370,098)	(370,098)	(371,000)	(902)
Transfers – out	(242,460)	(242,460)	(240,000)	2,460
Total other financing sources (uses)	<u>471,072</u>	<u>488,615</u>	<u>534,459</u>	<u>45,844</u>
Net change in fund balance	(2,671,867)	(1,729,662)	(2,192,716)	(463,054)
Fund balance at beginning of year	2,220,797	2,220,797	2,220,797	-
Prior year encumbrances appropriated	<u>600,197</u>	<u>600,197</u>	<u>600,197</u>	-
Fund balance at end of year	\$ <u>149,127</u>	\$ <u>1,091,332</u>	\$ <u>628,278</u>	\$ <u>(463,054)</u>

The notes to the basic financial statements are an integral part of this statement

East Cleveland City School District

Statement of Fund Net Assets – Modified Cash Basis Proprietary Funds

June 30, 2004

	<u>Business-Type Activities</u> Enterprise <u>Funds</u>	<u>Governmental Activities</u> Internal <u>Service Funds</u>
Assets:		
Current assets:		
Cash and cash equivalents	\$ <u>30,017</u>	\$ <u>47,921</u>
Total assets	<u>30,017</u>	<u>47,921</u>
Net assets:		
Unrestricted	<u>30,017</u>	<u>47,921</u>
Total net assets	<u>\$ 30,017</u>	<u>\$ 47,921</u>

The notes to the basic financial statements are an integral part of this statement

East Cleveland City School District

Statement of Cash Receipts, Disbursements and Changes in Fund Net Assets – Modified Cash Basis Proprietary Funds

For the Fiscal Year Ended June 30, 2004

	<u>Business-Type Activities</u> Enterprise Funds	<u>Governmental Activities</u> Internal Service Funds
Operating cash receipts:		
Tuition and fees	\$ 13,435	\$ -
Extracurricular activities	-	24,487
Miscellaneous	-	10,508
Total operating cash receipts	<u>13,435</u>	<u>34,995</u>
Operating cash disbursements:		
Salaries and wages	65,492	-
Fringe benefits	15,667	-
Materials and supplies	12,923	2,110
Contractual services	30,092	8,787
Other operating disbursements	-	155
Total operating cash disbursements	<u>124,174</u>	<u>11,052</u>
Loss before transfers and advances	(110,739)	23,943
Transfers – in	<u>90,000</u>	<u>-</u>
Change in net assets	(20,739)	23,943
Total net assets at beginning of year	<u>50,756</u>	<u>23,978</u>
Total net assets at end of year	\$ <u><u>30,017</u></u>	\$ <u><u>47,921</u></u>

The notes to the basic financial statements are an integral part of this statement

East Cleveland City School District

Statement of Fiduciary Net Assets – Modified Cash Basis Fiduciary Funds

June 30, 2004

	<u>Trust Funds</u>	<u>Agency</u>
Assets:		
Equity in pooled cash and cash equivalents	\$ <u>10,481</u>	\$ <u>19,395</u>
Net assets:		
Unrestricted	\$ <u>10,481</u>	\$ <u>19,395</u>

The notes to the basic financial statements are an integral part of this statement

East Cleveland City School District

Statement of Changes in Fiduciary Net Assets – Modified Cash Basis Fiduciary Funds

For the Fiscal Year Ended June 30, 2004

	<u>Trust Funds</u>
Additions:	
Contributions	\$ <u>754</u>
Total additions	<u>754</u>
Change in net assets	(18,007)
Net assets beginning of year	<u>28,488</u>
Net assets end of year	\$ <u><u>10,481</u></u>

The Notes to the Basic Financial Statements are an Integral Part of this Statement

East Cleveland City School District

Notes To Basic Financial Statements

For the Fiscal Year Ended June 30, 2004

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 232 classified employees and 397 certificated full-time teaching personnel who provide services to 5,080 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.

Component units are legally separate organizations for which the School District is financially accountable. Component units may also include organizations that are fiscally dependent on the School District in that the School District approves the budget, the issuance of debt or the levying of taxes. Currently, the School District does not have any component units.

The School District is associated with a related organization, an insurance purchasing pool and a jointly-governed organization. These organizations are the East Cleveland Public Library, Ohio School Boards Association Workers' Compensation Group Rating Plan, and the Ohio Schools Council Association. These organizations are presented in Notes 13, 14, and 15 to the financial statements.

Note 2: Summary of Significant Accounting Policies

As discussed further in Note 2C, these financial statements are presented on a *modified* cash basis of accounting. This *modified* cash basis of accounting differs from accounting principles generally accepted in the United States of America (GAAP). Generally accepted accounting principles include all relevant Governmental Accounting Standards Board (GASB) pronouncements, which have been applied to the extent they are applicable to the *modified* cash basis of accounting. In the government-wide financial statements and the fund financial statements for the proprietary funds, Financial Accounting Standards Board (FASB) pronouncements and Accounting Principles Board (APB) opinions issued on or before November 30, 1989, have been applied, to the extent they are applicable to the *modified* cash basis of accounting, unless those pronouncements conflict with or contradict GASB pronouncements, in which case GASB prevails. The School District does not apply FASB statements issued after November 30, 1989, to its business-type activities and to its enterprise funds.

East Cleveland City School District

Notes To Basic Financial Statements

For the Fiscal Year Ended June 30, 2004

Note 2: Summary of Significant Accounting Policies (continued)

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

The School District classifies funds financed primarily from taxes, intergovernmental receipts (e.g., grants) and other non-exchange transactions as governmental funds. 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.

Classroom Facilities Fund – The Classroom Facilities 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.

Proprietary Funds

The School District classifies funds financed primarily from user charges for goods or services as proprietary. 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 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 received, expenses paid, and/or net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes. The District has two enterprise funds to account for uniform supplies and adult and community education.

Internal Service Fund – The internal service fund is used to account for the financing of goods or services provided by one department or agency to other departments or agencies of the district, or to other governments, on a cost-reimbursement basis. The School District's internal service fund is the internal service rotary fund.

East Cleveland City School District

Notes To Basic Financial Statements

For the Fiscal Year Ended June 30, 2004

Note 2: Summary of Significant Accounting Policies (continued)

A. Fund Accounting (continued)

Fiduciary Funds

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's special purpose trust fund accounts for programs that provide college scholarships to students after graduation. Agency funds are custodial in nature and do not involve measurement of results of operations. The District has one agency fund that accounts 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 statement of net assets presents the cash balance of the governmental and business-type activities of the School District at fiscal year end.

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.

East Cleveland City School District

Notes To Basic Financial Statements

For the Fiscal Year Ended June 30, 2004

Note 2: Summary of Significant Accounting Policies (continued)

B. Measurement Focus (continued)

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.

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.

C. Basis of Accounting

The School District's financial statements are prepared using the modified cash basis of accounting. Except for modifications having substantial support, receipts are recorded in the School District's financial records and reported in the financial statements when cash is received rather than when earned and disbursements are recorded when cash is paid rather than when a liability is incurred. Any such modifications made by the School District are described in the appropriate section in this note.

As a result of the use of this modified cash basis of accounting, certain assets and their related revenues (such as accounts receivable and revenue for billed or provided services not yet collected) and certain liabilities and their related expenses (such as accounts payable and expenses for goods or services received but not yet paid, and accrued expenses and liabilities) are not recorded in these financial statements.

D. Budgetary Process

All funds, except agency funds, are legally required to be budgeted and appropriated. The major documents prepared are the tax budget, the certificate of estimated resources, and the appropriations resolution, all of which are prepared on the budgetary basis of accounting. The tax budget demonstrates a need for existing or increased tax rates. The certificate of estimated resources establishes a limit on the amount the Board of Education may appropriate. The appropriations resolution is the Board's authorization to spend resources and sets annual limits on cash disbursements plus encumbrances at the level of control selected by the Board. The legal level of control has been established by the Board at the fund level for all funds. Budgetary allocations at the function and object level within all funds are made by the Treasurer.

East Cleveland City School District

Notes To Basic Financial Statements

For the Fiscal Year Ended June 30, 2004

Note 2: Summary of Significant Accounting Policies (continued)

D. Budgetary Process (continued)

The certificate of estimated resources may be amended during the fiscal year if projected increases or decreases in receipts are identified by the Treasurer. The amounts reported as the original budgeted amounts on the budgetary statements reflect the amounts on the certificate of estimated resources when the original appropriations were adopted. The amounts reported as the final budgeted amounts on the budgetary statements reflect the amounts on the amended certificate of estimated resources in effect at the time final appropriations were passed by the Board.

The appropriation resolution is subject to amendment throughout the year with the restriction that appropriations cannot exceed estimated resources. The amounts reported as the original budgeted amounts reflect the first appropriation resolution for that fund that covered the entire fiscal year, including amounts automatically carried forward from prior fiscal years. The amounts reported as the final budgeted amounts represent the final appropriation amounts passed by the Board during the fiscal year.

E. Cash and Investments

To improve cash management, cash received by the School District is pooled and invested. Monies for all funds are maintained in this pool. Individual fund integrity is maintained through School District records. Interest in the pool is presented as "Equity in Pooled Cash and Cash Equivalents".

Investments of the School District's 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 presented on the financial statements as cash equivalents. Investments with an initial maturity of more than three months that were not purchased from the pool are reported as investments.

Investments are reported as assets. Accordingly, purchases of investments are not recorded as disbursements, and sales of investments are not recorded as receipts. Gains or losses at the time of sale are recorded as receipts or negative receipts (contra revenue), respectively.

During fiscal year 2004, 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.

The School District has invested funds in the State Treasury Assets Reserve (STAROhio) during fiscal year 2004. 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, 2004.

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 2004 amounted to \$106,884, of this amount \$75,204 was assigned to other funds.

East Cleveland City School District

Notes To Basic Financial Statements

For the Fiscal Year Ended June 30, 2004

Note 2: Summary of Significant Accounting Policies (continued)

F. Restricted Assets

Assets are reported as restricted when limitations on their use change the 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 law through constitutional provisions or enabling legislation. Restricted assets in the General Fund include amounts required by State statute to be set aside for textbooks and capital improvements. See Note 11 for additional information regarding set-asides.

G. Inventory and Prepaid Items

The District reports disbursement for inventory and prepaid items when paid. These items are not reflected as assets on the accompanying financial statements.

H. Capital Assets

Acquisitions of property, plant and equipment are recorded as disbursements when paid. These items are not reflected as assets on the accompanying financial statements.

I. Interfund Balances

The District reports advances-in and advances-out for interfund loans. These items are not reflected as assets and liabilities in the accompanying financial statement.

J. Employer Contributions to Cost-Sharing Pension Plans

The District recognizes the disbursement for employer contributions to cost-sharing pension plans when they are paid. As described in Notes 8 and 9, the employer contributions include portions for pension benefits and for postretirement health care benefits.

K. Long-Term Obligations

The District's modified cash basis financial statements do not report liabilities for bonds and other long-term obligations. Proceeds of debt are reported when cash is received and principal and interest payments are reported when paid. Since recording a capital asset when entering into a capital lease is not the result of a cash transaction, neither an other financing source nor a capital outlay expenditure are reported at inception. Lease payments are reported when paid.

L. Accumulated Leave

In certain circumstances, such as upon leaving employment or retirement, employees are entitled to cash payments for unused leave. Unpaid leave is not reflected as a liability under the District's modified cash basis of accounting.

East Cleveland City School District

Notes To Basic Financial Statements (continued)

For the Fiscal Year Ended June 30, 2004

Note 2: Summary of Significant Accounting Policies (continued)

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 balance which is available for appropriation in future periods. Fund balance 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 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. There are no restricted assets due to enabling legislation. Net assets restricted for other purposes include resources restricted for federal and state grants restricted to cash disbursement for specified purposes. The School District's policy is to first apply restricted resources when a cash disbursement is incurred for purposes for which both restricted and unrestricted net assets are available.

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 receipts.

Exchange transactions between funds are reported as receipts in the seller funds and as disbursements 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 non-operating receipts/cash disbursements in the food service enterprise fund. Repayments from funds responsible for particular cash disbursements to the funds that initially paid for them are not presented on the financial statements.

East Cleveland City School District

Notes To Basic Financial Statements (continued)

For the Fiscal Year Ended June 30, 2004

Note 2: Summary of Significant Accounting Policies (continued)

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 2004.

R. Reclassification

Certain accounts in the prior year financial statements have been reclassified for comparative purposes to conform with the presentation in the current year financial statements.

Note 3: Change in Basis of Accounting and Restatement of Fund Equity

A. Change in Basis of Accounting

For 2004, the District ceased to report using generally accepted accounting principles and reported on the modified cash basis as described in Note 2C.

B. Restatement of Fund Equity

The implementation of this change had the following effects on fund equity of the major and nonmajor funds of the School District as they were previously reported. The effects on net fund balance of governmental activities and business-type activities are also presented. The District also restated the fund equity for the Classroom Facilities and the Other Governmental Funds in order to properly account for activity relating to the Maintenance Fund.

	<u>General</u>	<u>Classroom Facilities</u>	<u>Nonmajor Governmental Funds</u>	<u>Total Governmental Funds</u>
Fund Balance June 30, 2003	\$ 905,132	\$ 16,634,463	\$ 2,234,602	\$ 19,774,197
Prior Year Net Accrual Adjustments	<u>1,915,862</u>	<u>(1,114,422)</u>	<u>2,609,469</u>	<u>3,410,909</u>
Fund Balance, June 30, 2003, as Restated	\$ <u>2,820,994</u>	\$ <u>15,520,041</u>	\$ <u>4,844,071</u>	\$ <u>23,185,106</u>

East Cleveland City School District

Notes To Basic Financial Statements (continued)

For the Fiscal Year Ended June 30, 2004

Note 3: Change in Basis of Accounting and Restatement of Fund Equity (continued)

B. Restatement of Fund Equity (continued)

	<u>Governmental Activities</u>	<u>Business-Type Activities</u>
Net Assets June 30, 2003	\$ 76,403,595	\$ 32,254
Prior Year Net Accrual Adjustments	<u>(53,194,511)</u>	<u>18,502</u>
Net Assets, June 30, 2003, as Restated	\$ <u>23,209,084</u>	\$ <u>50,756</u>

	<u>General</u>	<u>Classroom Facilities</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Fund Balance June 30, 2003 as Restated – After Accounting Change	\$ 2,820,994	\$ 15,520,041	\$ 4,844,071	\$ 23,185,106
Correction of a Prior Period Error – Fund Classification	<u>-</u>	<u>(926,678)</u>	<u>926,678</u>	<u>-</u>
Fund Balance, June 30, 2003, as Restated – After Correction of an Error	\$ <u>2,820,994</u>	\$ <u>14,593,363</u>	\$ <u>5,770,749</u>	\$ <u>23,185,106</u>

Note 4: Budgetary Basis of Accounting

The budgetary basis as provided by law is based upon accounting for certain transactions on the basis of cash receipts, disbursement, and encumbrances. The Statement of Receipts, Disbursements and Changes in Fund Balance – Budget and Actual – Budgetary Basis presented for the General Fund is prepared on the budgetary basis to provide a meaningful comparison of actual results with the budget. The difference between the budgetary basis and the modified cash basis is outstanding year end encumbrances, which are treated as cash disbursement (budgetary basis) rather than as a reservation of fund balance (modified cash basis). The encumbrances outstanding at year end (budgetary basis) amounted to \$1,240,502 for the General Fund.

East Cleveland City School District

Notes To Basic Financial Statements (continued)

For the Fiscal Year Ended June 30, 2004

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. Bonds and other obligations of the State of Ohio;
4. 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;
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 Basic Financial Statements (continued)

For the Fiscal Year Ended June 30, 2004

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.

A. Deposits

At fiscal year-end, the carrying amount of the School District's deposits was \$(745) and the bank balance was \$1,937,062. \$335,278 of the bank balance was covered by federal depository insurance. \$1,601,784 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

Investments are reported as carrying value. As of June 30, 2004 the District had the following investments:

	Carrying Value	Maturity	
		6 months or less	More than 6 months
Federal National Mortgage Association Notes	\$ 3,736,811	\$ 2,985,592	\$ 751,219
Federal Home Loan Mortgage Corp., Notes	4,642,794	-	4,642,794
Repurchase Agreements	3,644,125	3,644,125	-
STAROhio*	4,919,892	4,919,892	-
Money Market Mutual Funds	5,165,715	5,165,715	-
Federal Home Loan Bank Cons. Bond	<u>2,481,644</u>	<u>2,481,644</u>	<u>-</u>
Total Portfolio	\$ <u>24,590,981</u>	\$ <u>19,196,968</u>	\$ <u>5,394,013</u>

* - Noncategorized

East Cleveland City School District

Notes To Basic Financial Statements (continued)

For the Fiscal Year Ended June 30, 2004

Note 5: Deposits and Investments (continued)

B. Investments (continued)

Interest Rate Risk arises because potential purchasers of debt securities will not agree to pay face value for those securities if interest rates subsequently increase. The District's investment policy addresses interest rate risk requiring that the District's investment portfolio be structured so that securities mature to meet cash requirements for ongoing operations and/or long-term debt payments, thereby avoiding that need to sell securities on the open market prior to maturity and by investing operation funds primarily in short-term investments. The District investment policy also limits security purchases to those that mature five years unless specifically matched to a specific cash flow. To date, no investments have been purchased with a life greater than four years.

Custodial Risk for investments is the risk that, in the event of the failure of the counterparty to a transaction, the District will not be able to recover the value of investment or collateral securities that are in the possession of an outside party. All financial institutions and broker/dealers who desire to become qualified for investment transactions with the District must meet a set of prescribed standards and be periodically reviewed.

Credit Risk is addressed by the District's investment policy by the requirements that all investments are authorized by Ohio Revised Code and that portfolio be diversified both by types of investment and issuer. All investments of the District are registered and carry a rating AAA by Standard & Poor's.

Concentration of Credit Risk is defined by the Governmental Accounting Standards Board as five percent or more in the securities of a single issuer. The District's investment policy requires diversification of the portfolio but does not indicate specific percentage allocations.

<u>Investment Issuer</u>	<u>Percentage of Investments</u>
Federal National Mortgage Association Notes	15.20%
Federal Home Loan Mortgage Corp. Notes	18.88
Repurchase Agreements	14.82
STAROhio	20.01
Money Market Mutual Funds	21.01
Federal Home Loan Bank Cons. Bond	10.09

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 Basic Financial Statements (continued)

For the Fiscal Year Ended June 30, 2004

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 2004 for real and public utility property taxes represents collections of calendar 2003 taxes. Property tax payments received during calendar 2004 for tangible personal property (other than public utility property) is for calendar 2004 taxes.

2004 real property taxes are levied after April 1, 2004, on the assessed value as of January 1, 2004, 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. 2004 public utility property taxes became a lien December 31, 2003, are levied after April 1, 2004 and are collected in 2004 with real property taxes.

2004 tangible personal property taxes are levied after April 1, 2003, on the value as of December 31, 2003. Collections are made in 2004. Tangible personal property assessments are twenty-five percent of true value.

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

	2003 Second-Half Collections		2004 First-Half Collections	
	<u>Amount</u>	<u>Percentage</u>	<u>Amount</u>	<u>Percentage</u>
Agricultural/Residential and Other Real Estate	\$ 211,143,580	87.79	\$ 236,456,960	89.21
Public Utility Personal	13,311,480	5.53	14,785,280	5.58
Tangible Personal Property	<u>16,076,704</u>	<u>6.68</u>	<u>13,821,154</u>	<u>5.21</u>
Total	\$ <u>240,531,764</u>	<u>100.00</u>	\$ <u>265,063,394</u>	<u>100.00</u>
 Tax rate per \$1,000 of assessed valuation	 \$ 92.40		 \$ 92.40	

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

Tangible personal property taxes paid by multi-county taxpayers are due September 20. Single county taxpayers may pay annually or semi-annually. If paid annually, payment is due April 30; if paid semi-annually, the first payment is due April 30, with the remainder payable by September 20. Tangible personal property taxes paid by April 30 are usually received by the School District prior to June 30. This year, the June 2004 tangible personal property tax settlement was not received until July 2004.

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, 2004, are available for advance to finance fiscal year 2004 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 Basic Financial Statements (continued)

For the Fiscal Year Ended June 30, 2004

Note 7: Long-Term Obligations

The changes in the long-term obligations of the School District for the year ended June 30, 2004 are as follows:

	Balance June 30, <u>2003</u>	<u>Additions</u>	<u>Deductions</u>	Balance June 30, <u>2004</u>
Governmental Activities:				
<u>General Obligation Bonds</u>				
Classroom Facilities Bonds				
2003 Issue 5.017% due 12/1/2020	\$ <u>9,055,000</u>	\$ <u>-</u>	\$ <u>(410,000)</u>	\$ <u>8,645,000</u>
<u>Other Long-Term Obligations</u>				
Ohio State Solvency Note	<u>7,698,000</u>	<u>-</u>	<u>(3,849,000)</u>	<u>3,849,000</u>
Total Long-Term Obligations	\$ <u><u>16,753,000</u></u>	\$ <u><u>-</u></u>	\$ <u><u>(4,259,000)</u></u>	\$ <u><u>12,494,000</u></u>

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

Principal and interest requirements to retire the long-term debt obligation outstanding at June 30, 2004 were as follows:

<u>Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2005	\$ 425,000	\$ 367,902	\$ 792,902
2006	440,000	351,248	791,248
2007	460,000	333,468	793,468
2008	475,000	314,530	789,530
2009	495,000	294,521	789,521
2010-2014	1,720,000	2,249,409	3,969,409
2015-2019	3,145,000	779,375	3,924,375
2020-2021	<u>1,485,000</u>	<u>75,125</u>	<u>1,560,125</u>
Totals	\$ <u><u>8,645,000</u></u>	\$ <u><u>4,765,578</u></u>	\$ <u><u>13,410,578</u></u>

East Cleveland City School District

Notes To Basic Financial Statements (continued)

For the Fiscal Year Ended June 30, 2004

Note 8: 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 School Employee Retirement System, 300 East Broad Street, Suite 100, Columbus, Ohio 43215-3476.

Plan members are required to contribute 10 percent of their annual covered salary and the School District is required to contribute at an actuarially determined rate. The current rate is 14 percent of annual covered payroll; 9.09 percent was the portion used to fund pension obligations for fiscal year 2004. For fiscal year 2003, 8.17 percent of annual covered salary was the portion 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, 2004, 2003, and 2002 were \$1,115,499, \$1,204,635, and \$1,233,663, respectively; 84.97 percent has been contributed for fiscal year 2004, and 100 percent for fiscal years 2003 and 2002.

B. State Teachers Retirement System

The East Cleveland City School District contributes to the State Teachers Retirement System of Ohio (STRS Ohio), a cost-sharing multiple employer public employee retirement system. Benefits are established by Chapter 3307 of the Ohio Revised Code. STRS Ohio issues a stand-alone financial report. The report may be obtained by writing to STRS Ohio, 275 East Broad Street, Columbus, Ohio 43215-3771 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 divided by an actuarially determined annuity factor. The DC Plan allows members to allocate their member contributions and employer contributions equal to 10.5 percent of earned compensation are placed 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.

East Cleveland City School District

Notes To Basic Financial Statements (continued)

For the Fiscal Year Ended June 30, 2004

Note 8: Defined Benefit Retirement Plans (continued)

B. State Teachers Retirement System (continued)

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.

Plan members are required to contribute 10 percent of their annual covered salaries and the District is required to contribute 14 percent. A portion of the District's contribution is used to fund pension obligations with the remainder being used to fund health care benefits. For fiscal year 2004, 13 percent of annual covered salary was the portion used to fund pension obligations. Contribution rates are established by the State Teachers Retirement Board, upon recommendation 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 employee contributions.

The School District's required contributions for pension obligations to STRS Ohio for the fiscal years ended June 30, 2004, 2003, and 2002 were \$3,325,632, \$3,951,987, and \$3,903,440, respectively; 82.55 percent has been contributed for fiscal year 2004, and 100 percent for fiscal years 2003 and 2002.

Note 9: Postemployment Benefits

A. State Employees Retirement System

The Ohio Revised Code gives SERS the discretionary authority to provide postretirement health care to retirees and their dependents. Coverage is made available to service retirees with ten or more fiscal years of qualifying service credit, and to disability and survivor benefit recipients. Effective January 1, 2004, all retirees and beneficiaries are required to pay a portion of their health care premium. The portion is based on years, Medicare eligibility and retirement status. A safety net is in place for retirees whose household income falls below federal poverty levels. Premiums are reduced by 50% for those who apply.

After the allocation for basic benefits, the remainder of the employer's 14 percent contribution is allocated to providing health care benefits. At June 30, 2004, the healthcare allocation is 4.91 percent. 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 2004, the minimum pay has been established as \$25,400. The surcharge, added to the unallocated portion of the 14 percent employer contribution rate, provides for maintenance of the asset target level for the health care fund.

East Cleveland City School District

Notes To Basic Financial Statements (continued)

For the Fiscal Year Ended June 30, 2004

Note 9: Postemployment Benefits (continued)

A. State Employees Retirement System (continued)

Health care benefits are financed on a pay-as-you-go-basis. The target level for the health care reserve is 150 percent of annual health care expenses. Expenses for health care at June 30, 2004 were \$223,443,805 and the target level was \$335.2 million. At June 30, 2004, the Retirement System's net assets available for payment of health care benefits were \$300.8 million. The number of benefit recipients currently receiving health care benefits is approximately 62,000. For the year ended June 30, 2004, the District contributed \$531,356 to fund post-employment benefits, including the surcharge.

B. State Teachers Retirement System

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

The RC grants authority to STRS Ohio to provide health care coverage to benefit recipients, spouses, and dependents. By Ohio law, the cost of the coverage paid from STRS Ohio funds shall be included in the employer contribution rate, currently 14 percent of covered payroll. The board allocates employer contributions to the Health Care Reserve Fund from which health care benefits are paid. For the fiscal year ended June 30, 2004, the Board allocated employer contributions equal to one percent of covered payroll to the Health Care Reserve Fund. For the School District, this amount equaled \$258,545 for fiscal year 2004. The balance in the Health Care Reserve Fund was \$3.1 billion at June 30, 2004. For the year ended June 30, 2004, the net health care costs paid by STRS Ohio were \$268.7 million. There were 111,853 eligible benefit recipients.

Note 10: 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.

East Cleveland City School District

Notes To Basic Financial Statements (continued)

For the Fiscal Year Ended June 30, 2004

Note 11: 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. In prior fiscal years, the School District was also required to set aside money for budget stabilization.

The following cash basis information identifies the changes in fund balance reserves for textbooks and capital improvements during fiscal year 2004. Disclosure of this information is required by State Statute.

	<u>Textbooks</u>	<u>Capital Improvements</u>	<u>Total</u>
Balance June 30, 2003	\$ 601,192	\$ (9,255,726)	\$ (8,654,534)
Current Year Set Aside Requirement	764,769	764,769	1,529,538
Current Year Offsets			
Tax levy for classroom facilities and maintenance	-	(100,765)	(100,765)
Qualifying disbursements	<u>(582,929)</u>	<u>-</u>	<u>(582,929)</u>
Balance June 30, 2004	\$ <u>783,032</u>	\$ <u>(8,591,722)</u>	\$ <u>(7,808,690)</u>
Set-Aside Balance Carried Forward to Future Fiscal Years	\$ <u>783,032</u>	\$ <u>(8,591,722)</u>	\$ <u>(7,808,690)</u>
Set-Aside Reserve Balances as of June 30, 2004	\$ <u>783,032</u>	\$ <u>-</u>	\$ <u>783,032</u>

In the prior year, the School District had qualifying disbursements that reduced the capital improvements set-aside amounts below zero. The extra amount is used to reduce the current and future set-aside requirements. The total reserve balance for the two set-asides at the end of the fiscal year was \$783,032.

East Cleveland City School District

Notes To Basic Financial Statements (continued)

For the Fiscal Year Ended June 30, 2004

Note 12: Interfund Transactions

A. Advances for all funds for June 30, 2004:

	Advances In		
	General	Non-major Governmental	Total
Advances Out:			
General Fund	\$ -	\$ 371,000	\$ 371,000
Non-major Governmental	<u>946,472</u>	<u>-</u>	<u>946,472</u>
	<u>\$ 946,472</u>	<u>\$ 371,000</u>	<u>\$ 1,317,472</u>

Advances that involve agency funds are not reflected in the above table. The accompanying financial statements only reflect the portion(s) of the advances related to governmental, proprietary and agency funds. Consequently, differences between the above table and the financial statements may exist.

B. Operating transfers for all funds for June 30, 2004:

	Transfer In			Total
	General Fund	Non-major Governmental	Non-major Enterprise	
Transfer Out:				
General Fund	\$ -	\$ 152,180	\$ 90,000	\$ 242,180
Non-major Governmental	<u>911</u>	<u>-</u>	<u>-</u>	<u>911</u>
	<u>\$ 911</u>	<u>\$ 150,000</u>	<u>\$ 90,000</u>	<u>\$ 240,911</u>

Transfers that involve agency funds are not reflected in the above table. The accompanying financial statements only reflect the portion(s) of the transfers related to governmental, proprietary and agency funds. Consequently, differences between the above table and the financial statements may exist.

Note 13: 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 2004, 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.

East Cleveland City School District

Notes To Basic Financial Statements (continued)

For the Fiscal Year Ended June 30, 2004

Note 13: Risk Management (continued)

B. Worker's Compensation

The School District participates in a group rating plan for workers' compensation as established under Section 4123.29 of the Ohio Revised Code. The Ohio School Boards Association Workers' Compensation Group Rating Plan (Plan) was established through the Ohio School Boards Association (OSBA) as an insurance purchasing pool.

The Plan's business and affairs are conducted by a three member Board of Directors consisting of the President, the President-Elect, and the Immediate Past President of the OSBA. The Executive Director of the OSBA, or his designee, serves as coordinator of the Plan. Each year, the participants pay an enrollment fee to the Plan to cover the costs of administering the program.

Note 14: Jointly Governed Organization

A. Lakeshore Northeast Ohio Computer Association

The Lakeshore Northeast Ohio Computer Association (LNOCA) is a jointly governed computer service bureau owned and operated by sixteen school districts. The primary function of LNOCA is to provide data services to the sixteen school districts. Major areas of service provided by LNOCA include accounting, payroll, inventory, career guidance, student tracking, pupil scheduling, attendance 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 2004, the School District paid \$90,506 to LNOCA. Financial information can be obtained by contacting LNOCA, 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 91 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 2004, the School District paid \$344,701 to the Council. Financial information can be obtained by contacting Dr. David A. Cottrell, the Executive Treasurer of the Ohio School Council at 6133 Rockside Rd., Suite 10, Independence, Ohio 44131.

The School District participates in the Council's electric purchase program, which was implemented during fiscal year 1998. 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.

East Cleveland City School District

Notes To Basic Financial Statements (continued)

For the Fiscal Year Ended June 30, 2004

Note 14: Jointly Governed Organization (continued)

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.

Note 15: 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 16: 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 17: School Foundation Program

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

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

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

East Cleveland City School District

Notes To Basic Financial Statements (continued)

For the Fiscal Year Ended June 30, 2004

Note 18: 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 are 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, 2004.

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 19: Accountability and Compliance

A. Accountability

At June 30, 2004, the following funds had a deficit fund balance:

Special Revenue Funds:	
Food Service	\$ 544,914
Vocational Education Enhancements	5,409
Alternative Schools	774
Adult Basic Education	72,005
Vocation Education: Carl D. Perkins	77,957
Title V – Innovative Education Programs	2,421
Improving Teacher Quality	21,853

These deficits are expected by management to be eliminated by future intergovernmental revenues.

B. Compliance

Ohio Administrative Code, Section 117-2-03 (B), requires the School District to prepare its annual financial report in accordance with generally accepted accounting principles. However, the School District prepared its financial statements on a modified cash basis, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. The accompanying financial statements omit assets, liabilities, net assets/fund balances, and disclosures that, while material, cannot be determined at this time. The School District can be fined and various other administrative remedies may be taken against the School District.

East Cleveland City School District

Notes To Basic Financial Statements (continued)

For the Fiscal Year Ended June 30, 2004

Note 19: Accountability and Compliance (continued)

B. Compliance (continued)

Per ORC Section 5705.41(B), no subdivision or taxing unit is to expend money unless it has been appropriated. As of June 30, 2004, the following funds had expenditures plus encumbrances in excess of appropriations:

<u>Fund</u>	<u>Total</u> <u>Appropriations</u>	<u>Total</u> <u>Expenditures</u> <u>Plus</u> <u>Encumbrances</u>	<u>Excess</u>
Special Revenue Funds:			
School Net Prof Development	\$ 4,675	\$ 5,349	\$ (674)
Ohio Reads	3,525	9,606	(6,081)
Vocational Education Amended	327,946	329,013	(1,067)
Drug Free Schools	52,142	81,321	(29,179)
EHA Preschool Grants/Handicapped	12,362	27,044	(14,682)
Food Service	2,792,118	2,793,685	(1,567)
Capital Projects Funds:			
Classroom Facilities	24,740,040	32,516,020	(7,775,980)

Note 20: Fiscal Emergency

In accordance with Ohio Revised Code Chapter 3316, the School District was placed under fiscal emergency by the Auditor of State in March 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, 2004**

Federal Grantor/ Pass Through Grantor Program Title	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	84.002	\$53,394	\$0	\$143,052	\$0
Title 1 Education Consolidation Improvement Act	84.010	3,792,769	0	3,543,443	0
Special Education Cluster:					
Education Handicapped Act - 6B	84.027	678,716	0	627,456	0
Special Education - Preschool Grant	84.173	29,380	0	19,102	0
Total Special Education Cluster:		<u>708,096</u>	<u>0</u>	<u>646,558</u>	<u>0</u>
Vocational Education - Basic Grant	84.048	175,005	0	299,830	0
Innovative Educational Program Strategies	84.298	35,079	0	47,045	0
Drug-Free Schools Grant	84.186	79,253	0	66,972	0
Safe and Drug-Free Schools and Communities	84.184C	9,865	0	25,596	0
21st Century Community Learning Center	84.287	319,868	0	210,502	0
Even Start Family Literacy	84.213	0	0	24,881	0
Education Technology State Grants	84.318	358,369	0	304,629	0
Comprehensive School Reform Demonstration	84.332	294,527	0	296,443	0
Improving Teacher Quality, Title II-A	84.367	697,128	0	771,915	0
Assistive Technology Infusion Project	84.343	0	0	2,137	0
<i>Direct Assistance</i>					
21st Century Community Learning Center	84.287	901,181	0	1,053,033	0
Total U.S. Department of Education		<u>7,424,534</u>	<u>0</u>	<u>7,436,036</u>	<u>0</u>
U. S. DEPARTMENT OF HEALTH AND HUMAN SERVICES					
<i>Passed Through the Ohio Department of Mental Retardation & Developmental Disabilities</i>					
Title XIX - Medical Assistance Program (CAFS)	93.778	151,702	0	151,702	0
U.S. DEPARTMENT OF AGRICULTURE					
<i>Passed Through Ohio Department of Education:</i>					
Nutrition Cluster:					
Food Distribution Center	10.550	0	37,269	0	37,269
School Breakfast Program	10.553	269,709	0	269,709	0
National School Lunch Program	10.555	1,189,092	0	1,189,092	0
Summer Food Service Program for Children	10.559	30,450	0	30,450	0
Total U.S. Department of Agriculture - Nutrition Cluster		<u>1,489,251</u>	<u>37,269</u>	<u>1,489,251</u>	<u>37,269</u>
Total Federal Receipts and Expenditures		<u>\$9,065,487</u>	<u>\$37,269</u>	<u>\$9,076,989</u>	<u>\$37,269</u>

The notes are an integral part of this schedule

**EAST CLEVELAND CITY SCHOOL DISTRICT
CUYAHOGA COUNTY
NOTES TO THE SCHEDULE OF FEDERAL AWARDS RECEIPTS AND EXPENDITURES
FOR THE YEAR ENDED JUNE 30, 2004**

NOTE A - SIGNIFICANT ACCOUNTING POLICIES

The accompanying Schedule of Federal Awards Receipts and Expenditures (the Schedule) summarizes the activity of the District's federal awards programs. The Schedule has been prepared on the cash basis of accounting.

NOTE B - CHILD NUTRITION CLUSTER

The District commingles cash receipts from the U.S. Department of Agriculture with similar State grants. When reporting expenditures on this Schedule, the District assumes it expends federal monies first.

NOTE C – FOOD DONATION PROGRAM

Nonmonetary assistance, such as food received from the U.S. Department of Agriculture, is reported in the Schedule at the fair market value of the commodities received and consumed. Cash receipts from the U.S. Department of Agriculture are commingled with State grants. It is assumed federal monies are expended first. At year end the District had no significant food commodities in inventory.

NA – Not Applicable

CFDA – Catalog of Federal Domestic Assistance



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, 2004, and have issued our report thereon dated November 16, 2010, wherein we noted the District utilized a basis of accounting other than that prescribed by Ohio Administrative Code § 117-2-03(B). We also noted the District restated the June 30, 2003 fund balances for the Governmental Activities, Business-Type Activities, each major fund, and the aggregate remaining fund information. 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 as a basis for designing our audit procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of opining on the effectiveness of the District's internal control over financial reporting. Accordingly, we have not opined on the effectiveness of the District's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. Therefore, we cannot assure that we have identified all deficiencies, significant deficiencies or material weaknesses. However, as described in the accompanying schedule of findings we identified a certain deficiency in internal control over financial reporting, that we consider a material weakness.

**Internal Control Over Financial Reporting
(Continued)**

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, when performing their assigned functions, to prevent, or detect and timely correct misstatements. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and timely corrected. We consider finding 2004-001 described in the accompanying schedule of findings to be a material weakness.

We did note certain matters not requiring inclusion in this report that that we reported to the District's management in a separate letter dated November 16, 2010.

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 we must report under *Government Auditing Standards* which are described in the accompanying schedule of findings as items 2004-001 through 2004-004.

We also noted certain matters not requiring inclusion in this report that we reported to the District's management in a separate letter dated November 16, 2010.

The District's responses to the findings identified in our audit are described in the accompanying schedule of findings. 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 and federal awarding agencies and pass-through entities, and others within the District. We intend it for no one other than these specified parties.



Mary Taylor, CPA
Auditor of State

November 16, 2010



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, 2004. The summary of auditor's results section of the accompanying schedule of findings identifies the District's major federal programs. 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 included in the Comptroller General of the United States' *Government Auditing Standards*; 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 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 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, 2004.

Internal Control Over Compliance

The District's management is responsible for establishing and maintaining effective internal control over compliance with the 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 in order to determine our auditing procedures for the purpose of opining on compliance in accordance with OMB Circular A-133, but not for the purpose of opining on the effectiveness of internal control over compliance. Accordingly, we have not opined on the effectiveness of the District's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, when performing their assigned functions, to prevent, or to timely detect and correct, noncompliance with a federal program compliance requirement. A *material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a federal program compliance requirement will not be prevented, or timely detected and corrected.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control over compliance that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

We noted matters involving federal compliance or internal control over federal compliance not requiring inclusion in this report, that we reported to the District's management in a separate letter dated November 16, 2010.

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



Mary Taylor, CPA
Auditor of State

November 16, 2010

**EAST CLEVELAND CITY SCHOOL DISTRICT
 CUYAHOGA COUNTY
 SCHEDULE OF FINDINGS
 OMB CIRCULAR A-133 § .505
 FOR THE FISCAL YEAR ENDED JUNE 30, 2004**

SUMMARY OF AUDITOR'S RESULTS		
<i>(d)(1)(i)</i>	Type of Financial Statement Opinion	Unqualified
<i>(d)(1)(ii)</i>	Were there any material control weaknesses reported at the financial statement level (GAGAS)?	Yes
<i>(d)(1)(ii)</i>	Were there any significant deficiencies in internal control reported at the financial statement level (GAGAS)?	No
<i>(d)(1)(iii)</i>	Was there any reported material noncompliance at the financial statement level (GAGAS)?	Yes
<i>(d)(1)(iv)</i>	Were there any material internal control weaknesses reported for major federal programs?	No
<i>(d)(1)(iv)</i>	Were there any significant deficiencies in internal control reported for major federal programs?	No
<i>(d)(1)(v)</i>	Type of Major Programs' Compliance Opinion	Unqualified
<i>(d)(1)(vi)</i>	Are there any reportable findings under § .510(a)?	No
<i>(d)(1)(vii)</i>	Major Program(list):	CFDA# 84.010 - Title I Grants to Local Education Agencies 84.367 - Improving Teacher Quality State Grants 84.318 - Education Technology State Grants 84.287 – 21 st Century Community Learning Centers Special Education Cluster: 84.027 - Special Education Grants to States 84.173 - Special Education Preschool Grants
<i>(d)(1)(viii)</i>	Dollar Threshold: Type A/B Programs	Type A: > \$ 300,000 Type B: all others
<i>(d)(1)(ix)</i>	Low Risk Auditee?	No

**EAST CLEVELAND CITY SCHOOL DISTRICT
 CUYAHOGA COUNTY
 SCHEDULE OF FINDINGS
 OMB CIRCULAR A-133 § .505
 FOR THE FISCAL YEAR ENDED JUNE 30, 2004**

2. FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS
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Finding Number	2004-001
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Material Weakness, Material Noncompliance Finding and Finding for Adjustment

Ohio Rev. Code § 3318.08 requires that school districts participating in the Ohio School Facilities Commission – Classroom Facilities Assistance Programs establish a project construction fund to account for project funding and expenditures.

Ohio Rev. Code § 3318.05 requires that school districts participating in the Ohio School Facilities Commission – Classroom Facilities Assistance Programs establish a project maintenance fund to account for maintenance funding and expenditures.

Ohio Rev. Code § 5705.10(C) states that all revenue derived from a special levy shall be credited to a special fund for the purpose for which the levy was made.

The District participates in the Ohio School Facilities Commission – Classroom Facilities Assistance Program. This program required the District pass levies for their share of the projects costs. The District passed the required levies and established the Classroom Facilities Fund but did not establish a separate Maintenance Fund until 2006. Instead, the District recorded the tax levy proceeds for maintenance into a special cost center of the Classroom Facilities Fund.

Based on these facts, a Finding for Adjustment was made and the District restated the beginning fund cash balance in the Classroom Facilities Fund and established the Classroom Facilities and Maintenance Fund. The Classroom Facilities Fund cash balance was reduced by \$926,678 and the Maintenance Fund was increased by the same amount.

We recommend that all revenue derived from a special levy be credited to a special fund for the purpose for which the levy was made.

District’s Response

Issue was identified in 2006 and corrected.

Finding Number	2004-002
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Material Noncompliance Finding

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 his/her 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.

As reported in the fiscal year 2003 audit report, based on a reconstruction of the payroll records by the District’s legal counsel, the District erroneously over and under paid its teachers from fiscal years 2002 through 2007. The total amount of the overpayments was \$588,180 and the total amount of underpayments was \$353,459. This was due to teachers not being compensated in accordance with their education and teaching experience as dictated by the employment and union agreements.

**EAST CLEVELAND CITY SCHOOL DISTRICT
 CUYAHOGA COUNTY
 SCHEDULE OF FINDINGS
 OMB CIRCULAR A-133 § .505
 FOR THE FISCAL YEAR ENDED JUNE 30, 2004**

2. FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS
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Finding Number	2004-002
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(Continued)

The District's legal counsel is negotiating these issues with the employees and the applicable retirement boards and unions. As of July 8, 2009 the updated status of the over / under payments is as follows:

	Fiscal Year						Total
	2002	2003	2004	2005	2006	2007	
Overpaid	\$58,685	\$ 61,449	\$55,621	\$ 61,965	\$ 68,853	\$82,425	\$388,998
Underpaid	6,161	28,260	54,028	38,399	66,987	83,862	277,697

We recommend the District's legal counsel continue to address all discrepancies regarding the over and under payment of teacher compensation. Furthermore, we recommend that each employee's personnel file contain all salary notification forms, signed contracts, college transcripts and payroll deduction forms. 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.

District's Response

The ECEA payroll audit of overcompensated and undercompensated employees due to salary schedule misplacements is nearing completion. The totals submitted to the auditor's office previously were also submitted to STRS for review and augmentation for STRS purposes. STRS responded with its input on March 5th, 2010. The ECEA and the Board's representatives, led by the Superintendent and ECEA president must now resolve issues related to employee's who have retired during the pendency of this audit. That meeting will occur in July, 2010. Upon completion of the remaining negotiations of the terms and conditions of settling the audit matter between the Board and the ECEA, the auditor's office will receive a summary of all settlement agreements between the Board and the individual ECEA members.

Finding Number	2004-003
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Material Noncompliance Finding

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, 2004:

<u>Fund</u>	<u>Amount</u>
Food Service	(\$544,914)
Vocation Education Enhancements	(5,409)
Alternative School Challenge	(774)
Adult Basis Education	(72,005)
Vocation Education – Carl Perkins Grant	(77,957)
Title V – Innovative Education Programs	(2,421)
Improving Teacher Quality	(21,853)

**EAST CLEVELAND CITY SCHOOL DISTRICT
 CUYAHOGA COUNTY
 SCHEDULE OF FINDINGS
 OMB CIRCULAR A-133 § .505
 FOR THE FISCAL YEAR ENDED JUNE 30, 2004**

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

Finding Number	2004-003
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(Continued)

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

Advances were made in subsequent years to correct deficits.

Finding Number	2004-004
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Material Noncompliance Finding

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 June 30, 2004, 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>
School Net Professional Development	\$4,675	\$5,349	\$674
Ohio Reads	3,525	9,606	6,081
Drug Free Schools	52,142	81,321	29,179
Vocational Education Amended	327,946	329,013	1,067
EHA Preschool Grant	12,362	27,044	14,682
Classroom Facilities	24,740,040	32,516,020	7,775,980
Food Service	2,792,118	2,793,685	1,567

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).

District's Response

Appropriations are being compared to total expenditures plus encumbrances on a monthly basis and appropriations will be amended when necessary.

3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS

None

**EAST CLEVELAND CITY SCHOOL DISTRICT
 CUYAHOGA COUNTY
 SCHEDULE OF PRIOR AUDIT FINDINGS AND QUESTIONED COSTS
 OMB CIRCULAR A-133 § .505
 FOR THE FISCAL YEAR ENDED JUNE 30, 2004**

Finding Number	Finding Summary	Fully Corrected?	Not corrected, partially corrected, different corrective action taken; finding no longer valid; Explain
2003-001	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.	Yes	
2003-002	Several funds had cash deficits, contrary to Ohio Rev. Code § 5705.10(H).	No	Repeated in finding 2004-003.
2003-003	Numerous funds had expenditures plus encumbrances in excess of appropriations at March 31, 2003 and June 30, 2003, contrary to Ohio Rev. Code § 5705.41(B)(D).	No	Repeated in finding 2004-004.
2003-004	Obligations were entered into prior to obtaining the Treasurer's certification of funds, contrary to Ohio Rev. Code § 5705.41(D).	No	Partially, reported in the 2004 management letter
2003-005	Three educational assistants and one social worker did not have the required license from the State Board of Education, contrary to Ohio Rev. Code § 3319.30.	Yes	
2003-006	Opinion on the financial statements was qualified due to capital assets not being properly reported in the financial statements.	No	For 2004, the District prepared its financial statements in accordance with the cash accounting basis. As a result, the financial statements and notes did not report capital assets.
2003-007	Teachers were teachers were overcompensated or undercompensated based on their education and teaching experience.	No	Repeated in finding 2004-002
2003-008	Bank reconciliations were not performed in a timely manner and there were significant errors in the reconciliations.	Yes	
2003-009	Employees charging the Title I federal program did not prepare certifications of time and effort supporting the time charged.	Yes	

**EAST CLEVELAND CITY SCHOOL DISTRICT
 CUYAHOGA COUNTY
 SCHEDULE OF PRIOR AUDIT FINDINGS AND QUESTIONED COSTS
 OMB CIRCULAR A-133 § .505
 FOR THE FISCAL YEAR ENDED JUNE 30, 2004
 (Continued)**

Finding Number	Finding Summary	Fully Corrected?	Not corrected, partially corrected, different corrective action taken; finding no longer valid; Explain
2003-010	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.	Yes	
2003-011	Based on the guidelines contained in the Indirect Cost Recovery Plan for Ohio Schools prepared by the Ohio Department of Education and a recalculation of the indirect cost reimbursement charged to the Title I program by the District, the program was overcharged \$6,045 and a questioned cost was reported.	Yes	
2003-012	Student and parent incentives totaling \$800 from the Title I program was not properly supported. Since the \$800 was based on sampling it was projected to the total population and amounted to \$6,745 in questioned costs.	Yes	
2003-013	As reported in finding number 2004-002, teachers were overcompensated or undercompensated based on their education and teaching experience.	No	Repeated in finding 2004-002



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
DECEMBER 21, 2010**