



Dave Yost • Auditor of State

**East Cleveland City School District
Cuyahoga County, Ohio
Financial Forecast
For the Fiscal Year Ending June 30, 2011**

Local Government Services Section



Dave Yost • Auditor of State

February 8, 2011

Portions of the attached audit report were completed prior to the commencement of my term of office on January 10, 2011. Those portions completed prior to that date contain the signature of my predecessor.

A handwritten signature in black ink that reads "Dave Yost". The signature is written in a cursive style with a large, looping "Y" and "O".

DAVE YOST
Auditor of State

**East Cleveland City School District
Cuyahoga County**

Financial Forecast

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Dave Yost • Auditor of State

East Cleveland City School District
Financial Planning and Supervision Commission
Ohio Department of Education
25 Front Street
Columbus, Ohio 43215

and

Board of Education
East Cleveland City School District
14305 Shaw Avenue, Modular Building
East Cleveland, Ohio 44112

CERTIFICATION

Certification is hereby made that, based upon the requirement set forth in Section 3316.08, Revised Code, the Local Government Services Section of the Auditor of State's Office has examined the financial forecast of the general fund of the East Cleveland City School District, Cuyahoga County, Ohio, and issued a report dated October 6, 2010. The forecast is based on the assumption that the School District will continue to operate its instructional program in accordance with its adopted school calendar and pay all obligations. Additional significant assumptions are set forth in the forecast. Some assumptions inevitably will not materialize, and unanticipated events and circumstances may occur; therefore, the actual results of operations during the forecast period will vary from the forecast, and the variations may be material.

The forecast reflects an operating surplus for the fiscal year ending June 30, 2011 of \$26,140,000.

The forecasted revenues include all property taxes scheduled for settlement during the forecast period. The forecast excludes the receipt of any advances against fiscal year 2012 scheduled property tax settlements. The potential advances have been excluded due to the School District's inability to appropriate this revenue until received and the uncertainty of the timing of any advances. Currently, it is the Board's intent not to appropriate any such advances for fiscal year 2011.

DAVE YOST
Auditor of State

A handwritten signature in cursive script that reads "Unice S. Smith".

Unice S. Smith
Chief of Local Government Services

February 8, 2011



Mary Taylor, CPA

Auditor of State

Board of Education
East Cleveland City School District
14305 Shaw Avenue, Modular Building
East Cleveland, Ohio 44112

Independent Accountant's Report

We have examined the accompanying forecasted statement of revenues, expenditures and changes in fund balance of the general fund of the East Cleveland City School District for the fiscal year ending June 30, 2011. The East Cleveland City School District's management is responsible for the forecast. Our responsibility is to express an opinion on the forecast based on our examination.

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

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

The accompanying statement of revenues, expenditures and changes in fund balance of the general fund of East Cleveland City School District for the fiscal years ended June 30, 2008, 2009 and 2010 were compiled by us in accordance with the Statements on Standards for Accounting and Review Services issued by the American Institute of Certified Public Accountants. A compilation is limited to presenting in the form of financial statements information that is the representation of management. We have not audited or reviewed this financial information, and, accordingly, do not express an opinion or any other form of assurance on them. Management has elected to omit substantially all of the disclosures associated with the historical financial statements; these disclosures might influence a user's conclusions regarding the School District's results of operations. Accordingly, these financial statements are not designed for those who are not informed about such matters.

Mary Taylor

MARY TAYLOR, CPA
Auditor of State

October 6, 2010

88 E. Broad St. / Fifth Floor / Columbus, OH 43215-3506
Telephone: (614) 466-4514 (800) 282-0370 Fax: (614) 466-4490
www.auditor.state.oh.us

East Cleveland City School District
Cuyahoga County
Statement of Revenues, Expenditures and Changes in Fund Balance
For the Fiscal Years Ended June 30, 2008 Through 2010 Actual;
For the Fiscal Year Ending June 30, 2011 Forecasted
General Fund

	Fiscal Year 2008 Actual	Fiscal Year 2009 Actual	Fiscal Year 2010 Actual	Fiscal Year 2011 Forecasted
Revenues				
General Property Tax	\$8,228,000	\$7,849,000	\$7,592,000	\$6,795,000
Tangible Personal Property Tax	1,180,000	985,000	131,000	3,000
Unrestricted Grants-in-Aid	32,188,000	31,464,000	31,795,000	32,109,000
Restricted Grants-in-Aid	4,404,000	4,480,000	1,447,000	283,000
Restricted Federal Grants-in-Aid SFSF	0	0	2,246,000	2,424,000
Property Tax Allocation	2,178,000	2,115,000	2,562,000	2,431,000
All Other Revenues	4,765,000	5,190,000	4,878,000	5,116,000
<i>Total Revenues</i>	<u>52,943,000</u>	<u>52,083,000</u>	<u>50,651,000</u>	<u>49,161,000</u>
Other Financing Sources				
Advances In	2,983,000	7,231,000	7,033,000	6,000,000
<i>Total Revenues and Other Financing Sources</i>	<u>55,926,000</u>	<u>59,314,000</u>	<u>57,684,000</u>	<u>55,161,000</u>
Expenditures				
Personal Services	23,063,000	23,487,000	22,689,000	23,415,000
Employees' Retirement/Insurance Benefits	8,619,000	8,602,000	9,072,000	8,669,000
Purchased Services	12,055,000	12,683,000	12,794,000	13,028,000
Supplies and Materials	1,509,000	2,068,000	1,526,000	1,650,000
Capital Outlay	726,000	405,000	112,000	674,000
Other Objects	227,000	384,000	488,000	522,000
<i>Total Expenditures</i>	<u>46,199,000</u>	<u>47,629,000</u>	<u>46,681,000</u>	<u>47,958,000</u>
Other Financing Uses				
Operating Transfers Out	235,000	384,000	345,000	93,000
Advances Out	6,132,000	5,071,000	11,348,000	9,000,000
All Other Financing Uses	0	12,000	0	0
<i>Total Other Financing Uses</i>	<u>6,367,000</u>	<u>5,467,000</u>	<u>11,693,000</u>	<u>9,093,000</u>
<i>Total Expenditures and Other Financing Uses</i>	<u>52,566,000</u>	<u>53,096,000</u>	<u>58,374,000</u>	<u>57,051,000</u>
<i>Excess of Revenues and Other Financing Sources Over (Under) Expenditures and Other Financing Uses</i>	3,360,000	6,218,000	(690,000)	(1,890,000)
Cash Balance July 1	21,824,000	25,184,000	31,402,000	30,712,000
Cash Balance June 30	25,184,000	31,402,000	30,712,000	28,822,000
Encumbrances and Reserve:				
Actual/Estimated Encumbrances June 30	1,681,000	2,617,000	2,621,000	2,600,000
Reservation of Fund Balance for:				
Bus Purchase	61,000	82,000	82,000	82,000
Total Encumbrances and Reserve of Fund Balance	<u>1,742,000</u>	<u>2,699,000</u>	<u>2,703,000</u>	<u>2,682,000</u>
Unencumbered/Unreserved Fund Balance June 30	<u>\$23,442,000</u>	<u>\$28,703,000</u>	<u>\$28,009,000</u>	<u>\$26,140,000</u>

See accompanying summary of significant forecast assumptions and accounting policies
See accountant's report

East Cleveland City School District
Cuyahoga County
Summary of Significant Assumptions and Accounting Policies
For the Fiscal Year Ending June 30, 2011

Note 1 – The School District

The East Cleveland City School District (the School District) is located in Cuyahoga County and encompasses all of the City of East Cleveland. The School District is organized under Article VI, Sections 2 and 3, of the Constitution of the State of Ohio. The legislative power of the School District is vested in the Board of Education, consisting of five members elected at large for staggered four year terms. The School District currently operates seven instructional buildings. The School District is staffed by 165 classified and 306 certificated personnel who provide services to approximately 3,393 students and other community members.

Note 2 - Nature of the Forecast

This financial forecast presents, to the best of the East Cleveland City School District Board of Education's knowledge and belief, the expected revenues, expenditures and operating balance of the general fund. Accordingly, the forecast reflects the Board of Education's judgment of the expected conditions and its expected course of action as of October 6, 2010, the date of this forecast. The assumptions disclosed herein are those that management believes are significant to the forecast. Differences between the forecasted and actual results will usually arise because events and circumstances frequently do not occur as expected, and those differences may be material.

Note 3 – Nature of the Presentation

The forecast presents the revenues, expenditures, and changes in fund balance of the general fund. Under State law, certain general fund revenues received from the State must be spent on specific programs. These resources and the related expenditures have been segregated in the accounting records of the School District to demonstrate compliance. For presentation in the forecast, the poverty based assistance and the school district fiscal stabilization funds are included in the general fund.

Note 4 - Summary of Significant Accounting Policies

Basis of Accounting

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

East Cleveland City School District
Cuyahoga County
Summary of Significant Assumptions and Accounting Policies
For the Fiscal Year Ending June 30, 2011

Fund Accounting

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

Governmental Funds

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

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

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

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

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

Proprietary Funds

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

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

Fiduciary Funds

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

Budgetary Process

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

East Cleveland City School District
Cuyahoga County
Summary of Significant Assumptions and Accounting Policies
For the Fiscal Year Ending June 30, 2011

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

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

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

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

Note 5 - General Operating Assumptions

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

Note 6 - Significant Assumptions for Revenues and Other Financing Sources

General and Tangible Personal Property Taxes

Property taxes are applied to real property, public utility real and personal property and manufactured homes which are located within the School District. Tangible personal property used in businesses was taxed in calendar years prior to 2011. Property taxes are collected for, and distributed to, the School District by the county auditor and treasurer. Settlement dates, on which collections are distributed to the School District, are established by State statute. The School District may request advances from the Cuyahoga County Auditor as the taxes are collected. When final settlements are made, any amounts remaining to be distributed to the School District are paid. Deductions for auditor and treasurer fees, advertising delinquent taxes, election expenses, and other fees are made at these settlement times. The amounts shown in the revenue section of the forecast represent gross property tax revenue.

Property taxes are levied and assessed on a calendar year basis while the School District's fiscal year runs from July through June. Property tax revenue received during calendar year 2011 (the collection year) for real and public utility property taxes represents collections of 2010 taxes (the tax year). Property tax payments received during calendar year 2011 for tangible personal property (other than public utility property) are for calendar year 2011 taxes. First half calendar year tax collections are received by the School District in the second half of the fiscal year. Second half calendar year tax distributions occur in the first half of the following fiscal year.

East Cleveland City School District
 Cuyahoga County
 Summary of Significant Assumptions and Accounting Policies
 For the Fiscal Year Ending June 30, 2011

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

Prior to fiscal year-end, a school district may request an advance of real property tax collections that ordinarily would be settled in August and used to finance the upcoming fiscal year. The forecast excludes the receipt of any advances against fiscal year 2012 scheduled property tax settlements. The potential advances have been excluded due to the School District's inability to appropriate this revenue until received and the uncertainty of the timing of any advances. Currently, it is the Board's intent not to appropriate any such advances for fiscal year 2011.

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

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

The School District also has levies for bonded debt and school facilities maintenance totaling \$4.12 per \$1,000 of assessed valuation. The School District's total rate is \$92.50 per \$1,000 of assessed valuation.

Ohio law provides for a reduction in the rates of voted levies to offset increased values resulting from a reappraisal of real property. Reduction factors are applied to voted levies so that each levy yields the same amount of real property tax revenues on carryover property as in the prior year. Reduction factors are also adjusted to generate the same amount of property tax revenue on carryover property when there is a decline in the assessed valuation of property. For all voted levies, except emergency and debt levies, increases in revenues are restricted to amounts generated from new construction. Emergency and debt levies are intended to generate a set revenue amount annually. The revenue generated by emergency and debt levies is not affected by changes in real property valuation. The reduction factors are computed annually and applied separately for residential/agricultural real property and commercial/industrial real property. Reduction factors are not applied to inside millage (an unvoted levy) nor to tangible personal or public utility property levy rates. State law also prohibits the reduction factors from reducing the effective millage of the sum of the general fund current operating levies (excluding emergency levies) plus inside millage used for operating purposes below 20 mills. For the general fund, the effective residential and agricultural real property tax rate is \$35.2 per \$1,000 of assessed valuation for collection year 2011, and the effective commercial and industrial real property tax rate is \$56.8 per \$1,000 of assessed valuation for collection year 2011.

Public utility real and personal property taxes are collected and settled by the county with real estate taxes and are recorded as general property taxes. Beginning in 2001, the Ohio General Assembly reduced the assessment rate for certain tangible personal property of electric and gas utilities from 88 percent to 25

East Cleveland City School District
 Cuyahoga County
 Summary of Significant Assumptions and Accounting Policies
 For the Fiscal Year Ending June 30, 2011

percent. Starting in tax year 2005, the assessment rate for personal property owned by telephone utilities prior to 1995 was being phased down from 88 percent to 25 percent (in tax year 2007) over a three-year period. Beginning in 2007, House Bill 66 switched telephone companies from being public utilities to general business taxpayers and began a four year phase out of the tangible personal property tax on local and inter-exchange telephone companies. No tangible personal property taxes will be levied or collected after calendar year 2010 on local and inter-exchange telephone companies. The State of Ohio reimburses the School District for the loss of tangible personal property taxes as a result of these changes within certain limitations (see Property Tax Allocation Revenue below).

General Property Tax - General property tax revenue includes real estate taxes, public utility property taxes and manufactured home taxes. The amount shown in the revenue section of the forecast schedule represents gross property tax revenue and is based upon information provided by the Cuyahoga County Auditor. The School District anticipates a decrease of \$797,000 from the prior fiscal year due to an increase in delinquencies. The School District's total delinquent taxes outstanding as of June 30, 2010 are \$10,820,644.

Tangible Personal Property Tax – Tangible personal property tax was levied on machinery and equipment, furniture and fixtures, and inventory of businesses. Effective for tax years 2005 and 2006, the assessment rate on personal property began a phase out of the tax. No tangible personal property taxes were levied or collected in calendar year 2009 from general business taxpayers and no tangible personal property on telephone property will be collected in 2011. The School District, based on the last year of collections before the phase out period, lost approximately \$1,400,000, annually. The State of Ohio reimbursed the School District for the loss of tangible personal property taxes as a result of the changes in House Bill 66 within certain limitations (see Property Tax Allocation below).

Unrestricted Grants-in-Aid

Prior to fiscal year 2010, the State's foundation program was established by Chapter 3317 of the Ohio Revised Code and included formula aid and various categorical aid programs such as special and gifted education, career and technical education and transportation. Other programs such as parity aid, excess cost supplement and transitional aid guarantee were provided to address certain policy issues or correct flaws in formula aid were also included in this revenue. The semi-annual payments were calculated by the State Department of Education, Division of School Finance, on the basis of pupil enrollment (ADM), times a per pupil foundation level, less the equivalent of 23 mills multiplied by the school district's taxable property valuation. The per pupil foundation level was set by the State Legislature. Beginning in fiscal year 2008, the per pupil amount was increased by four base supplements called "building blocks." The building blocks were funding for intervention, professional development, data based decision making, and professional development for data based decision making.

The per pupil amounts for fiscal years 2008 and 2009 are as follows:

<u>Fiscal Year</u>	<u>Per Pupil Foundation Level</u>	<u>Building Blocks</u>	<u>Total</u>
2008	\$5,565	\$49	\$5,614
2009	5,732	51	5,783

Beginning in fiscal year 2010, the State General Assembly adopted a new funding method called the Ohio Evidence-Based Model (OEBM). The Ohio Evidence-Based Model was established in Chapter 3306 of the Ohio Revised Code and links educational research on academic achievement and successful outcomes

East Cleveland City School District
Cuyahoga County
Summary of Significant Assumptions and Accounting Policies
For the Fiscal Year Ending June 30, 2011

with funding components to achieve results. It incorporates real financial data and socioeconomic factors to fund resources and implement proven school programs according to the student need to achieve educational adequacy. The adequacy amount is the sum of service support components for instruction, administrative, operations and maintenance, gifted and enrichment, professional development and an instructional materials factor. These factors are multiplied against the Ohio education challenge factor (a district's wealth factor) and the State-wide base salary for given positions and the number of positions funded. Other factors included in the calculation are student/teacher ratios, organizational units, and average daily membership (ADM). The adequacy amount is offset by the school district share of the adequacy amount (the charge off amount), which is equal to 22 mills for fiscal years 2010 and 2011.

The State Department of Education, Division of School Finance calculates the annual funding, including the adequacy amount, and distributes a prorated share bi-monthly to the School District. In transitioning to the Ohio Evidence-Based Model, the gifted, enrichment, technology service support components and the charge off amount are phased in over a five year period. In addition, school districts are guaranteed 99 percent of prior year's State Foundation aid in fiscal year 2010 and 98 percent of the prior year in fiscal year 2011. For fiscal year 2011, the East Cleveland City School District estimates \$22,397,000 in adequacy funding and \$9,712,000 in guarantee funding. The \$314,000 increase in unrestricted grants-in-aid is due to the decrease in the School District's assessed valuation, which causes an increase in the State share of funding.

In fiscal years 2010 and 2011, approximately eight percent, respectively, of the adequacy funding is provided from a State Fiscal Stabilization grant received by the State of Ohio under the American Recovery and Reinvestment Act (see Restricted Federal Grants-in-Aid).

Restricted Grants-in-Aid

In past fiscal years, restricted grants-in-aid consisted of career technologies, bus purchase, parity aid and poverty based aid monies. For fiscal year 2011, the School District expects to receive \$283,000 in career technologies monies and does not anticipate any poverty based assistance or bus purchase allowance monies as they are considered part of basic aid; therefore, a \$1,164,000 decrease is anticipated from the prior fiscal year in the restricted State revenues.

Restricted Federal Grants-in-Aid

In 2010, Ohio was allocated \$845 million from the American Recovery and Reinvestment Act in State Fiscal Stabilization Funds (SFSF) to help stabilize state and local budgets in order to minimize and avoid reductions in education and other essential services. SFSF for primary and secondary education is distributed to school districts as part of the foundation settlement payments twice a month. The East Cleveland City School District, based on estimates provided by the Department of Education, anticipates \$2,424,000 for fiscal year 2011. These funds have limited restrictions on their use. The School District has chosen to use these funds for teacher salaries.

Property Tax Allocation

State law grants tax relief in the form of a ten percent reduction in real property tax bills. In addition, a two and one-half percent rollback is granted on residential property taxes. Tax relief is also granted to qualified elderly and disabled homeowners based on their income. Beginning in tax collection year 2008, the State expanded the homestead exemption to allow eligible homeowners to shield the first \$25,000 in market value from taxation. This expanded exemption will increase State allocation revenue and decrease property tax revenues by an equal amount. The State reimburses the School District for the loss of real property taxes as a result of the rollback and homestead tax relief programs.

East Cleveland City School District
 Cuyahoga County
 Summary of Significant Assumptions and Accounting Policies
 For the Fiscal Year Ending June 30, 2011

Historically, the State exempted the first \$10,000 in general business personal property from taxation and reimburse the School District for the lost revenue. Beginning with tax year 2004, the State began phasing out the reimbursement by 10 percent each year. Under HB 66, the phase-out period was accelerated. The last reimbursement for this exemption was in October 2008.

In fiscal year 2006, the State began reimbursing the School District for lost revenue due to the phase out of tangible personal property tax. In the first five years, the School District will be fully reimbursed relative to prior law for revenue lost due to the taxable value of reductions through 2013. Beginning in fiscal year 2013, the reimbursements are gradually phased out. The reimbursement will be for the difference between the assessed values under prior law and the assessed values under House Bill 66. This means the School District is only reimbursed for the difference between the amounts that would have been received under the prior law and the amounts actually received as the phase-outs in House Bill 66 are implemented. For fiscal year 2011, the School District anticipates receiving \$1,460,000 of reimbursement for the tangible personal property tax phase out.

Property tax allocation revenues consist of the following:

Revenue Sources	Actual Fiscal Year 2008	Actual Fiscal Year 2009	Actual Fiscal Year 2010	Forecasted Fiscal Year 2011	Variance Increase (Decrease)
Homestead and Rollback	\$1,163,000	\$1,143,000	\$1,149,000	\$971,000	(\$178,000)
Tangible Personal					
Property Exemption	24,000	12,000	0	0	0
Utility Deregulation	338,000	0	0	0	0
Tangible Personal Property					
Loss Reimbursement	653,000	960,000	1,413,000	1,460,000	47,000
Totals	<u>\$2,178,000</u>	<u>\$2,115,000</u>	<u>\$2,562,000</u>	<u>\$2,431,000</u>	<u>(\$131,000)</u>

All Other Revenues

All other revenues include tuition and open enrollment, interest on investments, classroom materials and fees, Reserve Officer Training Corps (ROTC), Medicaid School Program (MSP), other receipts, and the refund of prior year expenditures.

The increase in open enrollment tuition revenue is an increase in the number of students from other school districts attending the East Cleveland School District. The School District receives tuition from other school districts for special education students receiving services from the East Cleveland City School District. The School District also receives open enrollment tuition from the resident school districts for students attending East Cleveland City School District.

The School District pools cash from all funds for investment purposes. Investments are restricted by provisions of the Ohio Revised Code and are valued at cost. Following Ohio statutes, the Board of Education has, by resolution, specified the funds to receive an allocation of interest earnings with the greatest allocation being to the general fund. Interest revenue is anticipated to stay flat due to low interest rates.

The CAFS program ended June 30, 2005 with the final distribution in fiscal year 2006. During an audit of the CAFS program, it was determined that the School District was to receive an additional \$51,000 in reimbursements for prior fiscal years. This reimbursement was received by the School District in fiscal years 2008 and 2009.

East Cleveland City School District
 Cuyahoga County
 Summary of Significant Assumptions and Accounting Policies
 For the Fiscal Year Ending June 30, 2011

The Medicaid School Program (MSP) began July 1, 2009 and replaced the CAFS program. This program is a collaborative effort between the Ohio Department of Job and Family Services as the State Medicaid agency and the Ohio Department of Education as the agency responsible for assuring that the Individuals with Disabilities Education Act is delivering health related services to eligible special needs students. The School District anticipates receiving \$25,000 in reimbursement during the forecast period.

The ROTC program is a federally funded program established to train students interested in joining the military after they finish school. The School District forecasts this to be fairly consistent with the prior fiscal years.

Other miscellaneous revenues include rentals, contributions and donations, indirect costs and auditor adjustments. During fiscal years 2008 and 2009, the School District collected donations from the community to send the band to China to play for the Olympics that increased revenues by \$155,000 and \$225,000, respectively. After fiscal year 2009, the School District's contributions returned to fiscal year 2007 levels. The School District forecasts contributions for fiscal year 2011 to be \$152,000.

Refund or prior year expenditures for the forecasted fiscal year include refunds due to the School District from overpayment of excess costs.

All other revenues consist of the following:

Revenue Sources	Actual Fiscal Year 2008	Actual Fiscal Year 2009	Actual Fiscal Year 2010	Forecasted Fiscal Year 2011	Variance Increase (Decrease)
Tuition and Open Enrollment	\$3,055,000	\$3,822,000	\$4,315,000	\$4,497,000	\$182,000
Interest on Investments	1,164,000	485,000	333,000	333,000	0
Classroom Materials and Fees	8,000	5,000	3,000	7,000	4,000
CAFS	22,000	29,000	0	0	0
MSP	0	0	54,000	25,000	(29,000)
ROTC	30,000	32,000	28,000	30,000	2,000
Other Miscellaneous	349,000	780,000	105,000	152,000	47,000
Refund of Prior Year Expenditures	137,000	37,000	40,000	72,000	32,000
Totals	\$4,765,000	\$5,190,000	\$4,878,000	\$5,116,000	\$238,000

Other Financing Sources

Advances In – The School District anticipates receiving advances in of \$6,000,000 during the forecast period. During fiscal year 2010, the general fund advanced money to various grant funds in order to prevent the grant funds from ending the fiscal year with a deficit balance. Some of those advances are expected to be repaid during fiscal year 2011.

Note 7 - Significant Assumptions for Expenditures and Other Financing Uses

Personal Services

Personal services expenditures represent the salaries and wages paid to certified employees, classified and administrative staff, substitutes, tutors, student workers and board members. In addition to regular salaries, it includes payment for supplemental contracts and severance pay. All employees receive their compensation on a bi-weekly basis. Administrative and non-bargaining unit salaries are set by the Board of Education.

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Staffing levels for the last three fiscal years and the forecast period are displayed in the following chart. The amounts represent full time equivalents.

	2008	2009	2010	2011
General Fund:				
Certified	267	259	258	258
Classified	107	106	112	106
Total General Fund	374	365	370	364
Other Funds:				
Certified	20	9	14	48
Classified	12	19	22	59
Total Other Funds	32	28	36	107
Totals	406	393	406	471

Certified (teaching) staff salaries are based on a negotiated contract which includes base and step increases and educational incentives for existing staff. The contract covers the period July 1, 2009 through August 17, 2012, and allows for three percent increases in the base salary and 2.06 percent step increases in fiscal years 2011 and 2012. The cost of the step and base increases was partially offset by 39 higher earning employees leaving being replaced with 39 employees making lower wages. Overall, certified salaries are anticipated to increase approximately \$349,000.

Classified salaries are based on a negotiated contract which includes base and step increases. The contract for classified staff covers the period July 1, 2009 through August 17, 2012. The contract allows for three percent increases in the base salary as well as an average step increase of 2.06 percent in fiscal years 2011 and 2012. Classified salaries are forecasted to increase by \$252,000 due to base salary and step increases.

Substitute salaries are expected to increase by \$46,000 during the forecast period. Substitute and supplementary contracts are expected remain fairly consistent with the prior fiscal year.

Upon retirement, the School District offers its certified employees severance pay of 50 percent of their unused sick leave up to a maximum of 160 days paid, if notification of retirement is given to the School District by March 31. The severance pay is reduced to 25 percent if notification of retirement is received after March 31. Classified employees are entitled to severance pay of 35 percent of their unused sick leave, up to a maximum of 103 days paid. Severance pay for the current fiscal year includes only those employees eligible to retire who are below 55 years of age. Severance pay for employees eligible for retirement and age 55 and over is now paid into the Valic plan, which is classified as an employee benefit and addressed in the employee retirement/insurance benefits section of this report.

Other salaries and wages include mentor pay, optional day pays, class coverage pay, student workers and board compensation. Other salaries and wages are expected to increase \$100,000 due to base salary and step increases.

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Presented below is a comparison of the past three fiscal years and the forecast period.

	Actual Fiscal Year 2008	Actual Fiscal Year 2009	Actual Fiscal Year 2010	Forecasted Fiscal Year 2011	Variance Increase (Decrease)
Certified Salaries	\$17,542,000	\$17,247,000	\$16,177,000	\$16,526,000	\$349,000
Classified Salaries	4,280,000	4,423,000	4,526,000	4,778,000	252,000
Substitute Salaries	638,000	915,000	1,013,000	1,059,000	46,000
Supplemental Contracts	230,000	250,000	269,000	265,000	(4,000)
Severance Pay	116,000	98,000	132,000	115,000	(17,000)
Other Salaries and Wages	257,000	554,000	572,000	672,000	100,000
Totals	\$23,063,000	\$23,487,000	\$22,689,000	\$23,415,000	\$726,000

Employees' Retirement/Insurance Benefits

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

Retirement costs are based on the employers' contribution rate of 14 percent of salaries for STRS and SERS and an additional SERS surcharge levied to fund health care benefits for employees earning less than a minimum salary amount. Payments are made based upon estimated salary and wages for each fiscal year. Adjustments resulting from differences between the estimated and actual expenditures are prorated over the next calendar year. The School District pays the employee retirement contributions for the superintendent and treasurer. The increase in employer retirement contributions is due to the base and step increases in salaries and also increased Foundation and pick-up amounts.

In years past, SERS has been paid six months in arrears in Ohio school districts. On March 18, 2010, the SERS board decided to give the school districts two options. Option one is for the school district to pay the six month arrearage by June 30, 2010, to become current. Option two is for SERS to spread the six month arrearage amount over the next six years adding this to the current payment. East Cleveland City School District has chosen option one; therefore, the School District's retirement costs increased during fiscal year 2010. In fiscal year 2011, the School District anticipates a decrease of SERS due to the SERS Board change in the Ohio Department of Education Foundation Program deductions from a calendar year to a fiscal year and the catch-up amount payment paid during fiscal year 2010.

Health care costs are based on rates recommended by and agreed to by the various insurance companies and the Board of Education. Over 50 percent of covered employees are in a preferred provider medical plan and the remaining employees are in a traditional medical plan. Health care costs are fixed for a twelve month period from October through September. The following is a chart detailing the employee co-pays:

Health Care Plan	Certified	Classified
Anthem Blue		
Single	\$25	\$25
Two Person	50	50
Family	80	80

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The gross monthly charges per person for health care benefits are as follows:

Health Care Plan	Effective October 1, 2008		Effective October 1, 2009		Effective October 1, 2010	
	Certified	Classified	Certified	Classified	Certified	Classified
Kaiser HMO						
Single	\$389.17	\$414.17	\$452.40	\$464.95	n/a	n/a
Two Person	808.34	843.34	933.90	949.90	n/a	n/a
Family	1,227.51	1,272.51	1,415.44	1,434.85	n/a	n/a
Anthem Blue Access PPO						
Single	670.85	740.85	761.72	814.27	529.51	529.51
Two Person	1,341.79	1,511.79	1,522.59	1,668.54	1,059.01	1,059.01
Family	1,884.53	2,124.53	2,138.55	2,347.96	1,588.52	1,588.52

Vision benefits for certified employees are provided by EyeMed with gross monthly charges per person of \$7.45 for singles, \$14.05 for two persons and \$20.59 for families for fiscal years 2008, 2009 and 2010.

Life insurance premiums are based on the coverage amount and the anticipated number of employees participating in the program. Health care and life insurance benefits decreased due to a decrease in the premium.

Workers' compensation is based on the School District's assigned rate and the amount of wages paid in a calendar year. Premiums are paid in the following calendar year. The School District may choose to pay the entire premium in May or 45 percent in May and 55 percent in September. The School District anticipates paying the entire premium in May as in prior fiscal years. The premium for calendar year 2010, due in May 2011, decreased from \$2.94 per hundred dollars of payroll to \$1.56 per hundred dollars of payroll.

Upon retirement, the School District offers its certified employees severance pay of 50 percent of their unused sick leave up to a maximum of 160 days paid, if notification of retirement is given to the School District by March 31. The severance pay is reduced to 25 percent if notification of retirement is received after March 31. Classified employees are entitled to severance pay of 35 percent of their unused sick leave, up to a maximum of 103 days paid. Severance pay included in the salaries section of this forecast includes only those employees eligible to retire who are below 55 years of age. Severance pay for employees eligible for retirement and age 55 or more, is paid into the Valic plan. The Valic plan is classified as an employee benefit. Severance payments to Valic are anticipated to be consistent with the prior fiscal year.

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Presented below is a comparison of the past three fiscal years and the forecast period:

	Actual Fiscal Year 2008	Actual Fiscal Year 2009	Actual Fiscal Year 2010	Forecasted Fiscal Year 2011	Variance Increase (Decrease)
Employer's Retirement	\$3,823,000	\$3,352,000	\$3,323,000	\$3,342,000	\$19,000
Health Care/Life Insurance	3,504,000	3,901,000	4,345,000	4,117,000	(228,000)
Workers' Compensation	449,000	838,000	561,000	359,000	(202,000)
Medicare	204,000	209,000	222,000	230,000	8,000
Severance Pay/Valic Plan	639,000	302,000	621,000	621,000	0
Totals	\$8,619,000	\$8,602,000	\$9,072,000	\$8,669,000	(\$403,000)

Purchased Services

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

	Actual Fiscal Year 2008	Actual Fiscal Year 2009	Actual Fiscal Year 2010	Forecasted Fiscal Year 2011	Variance Increase (Decrease)
Professional and Technical Services	\$1,457,000	\$1,717,000	\$1,918,000	\$1,924,000	\$6,000
Property Services	862,000	895,000	908,000	932,000	24,000
Travel and Meeting Expenses	49,000	77,000	53,000	64,000	11,000
Communication Cost	380,000	234,000	336,000	366,000	30,000
Utility Services	1,047,000	692,000	582,000	673,000	91,000
Trade Services	9,000	12,000	11,000	11,000	0
Tuition Payments	7,726,000	8,370,000	8,210,000	8,329,000	119,000
Pupil Transportation	475,000	640,000	621,000	646,000	25,000
Other Purchased Services	50,000	46,000	155,000	83,000	(72,000)
Totals	\$12,055,000	\$12,683,000	\$12,794,000	\$13,028,000	\$234,000

Professional and technical services are forecasted to increase mainly due to increased contract rates on professional services. The majority of professional and technical services consists of computer and maintenance services provided by Lakeshore Northeast Ohio Computer Association (LNOCA), guardian record storage fees, and unemployment. Property services are forecasted to increase due to the cost of building security and property insurance due to higher valued, and newer buildings. Travel and meeting expenses increased due to an increase in the cost of mileage reimbursement. Communication costs are increasing due to increased telephone usage within the School District. Utility services are forecasted to increase due to increased electrical rates. Tuition payments will increase due to the forecasted increase in the number of students attending community schools and other districts resulting in higher tuition payments to be made by the School District. Pupil transportation costs are expected to increase slightly due to increases in contractual rates. Other purchased services will decrease due to less field trips being paid from the general fund during the current fiscal year, as they are being funded by grants.

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Supplies and Materials

Presented below are the supplies and materials expenditures for the past three fiscal years and the forecast period:

	Actual Fiscal Year 2008	Actual Fiscal Year 2009	Actual Fiscal Year 2010	Forecasted Fiscal Year 2011	Variance Increase (Decrease)
General Supplies, Library Books and Periodicals	\$427,000	\$780,000	\$555,000	\$627,000	\$72,000
Operations, Maintenance and Repair	360,000	393,000	439,000	425,000	(14,000)
Textbooks	722,000	895,000	532,000	598,000	66,000
Totals	<u>\$1,509,000</u>	<u>\$2,068,000</u>	<u>\$1,526,000</u>	<u>\$1,650,000</u>	<u>\$124,000</u>

General supplies, library books and periodicals will increase due to the School District replenishing general supplies after buying less in the prior fiscal year and making purchases of books and periodicals. Operations, maintenance and repairs are anticipated to decrease slightly due to the School District not having relocation costs associated with moving into the new buildings. The increase in textbooks is due to the School District replacing many out-dated textbooks in fiscal year 2011.

Capital Outlay

The costs of property, plant and equipment acquired or constructed for general services are recorded as expenditures. The increase of \$562,000 for fiscal year 2011 is due to the School District making purchases of new equipment and upgrades to the telephone system.

Other Objects

Other object expenditures consist of dues and fees, insurance and awards. An increase of \$34,000 is forecasted due to a continued increase in County Auditor delinquent land tax deductions and the audit costs for the completion of fiscal year 2007 to fiscal year 2009 audits.

Operating Transfers and Advances Out

Transfers out are anticipated during fiscal year 2011 to the athletics fund in the amount of \$73,000 for operating costs and \$20,000 to the student activities fund to reimburse expenditures. The general fund is anticipating advances out in fiscal year 2011 in the amount of \$9,000,000 due to the timing of the receipt of grant monies to the various funds. The general fund provides temporary funding of the program until the grant dollars are received.

Note 8 - Encumbrances

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

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Encumbrances for purchased services, supplies and materials, capital outlay and other objects as of June 30, 2009 were \$2,617,000 and \$2,621,000 as of June 30, 2010. Encumbrances have consistently been approximately \$2,600,000, so that amount will be used to forecast encumbrances for fiscal year 2011.

Note 9 - Reservations of Fund Balance

The School District is required by State statute to annually set aside in the general fund three percent of certain revenues for the purchase of textbooks and other instructional materials and an equal amount for the acquisition and construction of capital improvements. Amounts not spent by 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.

Textbooks and Instructional Materials Set-Aside

The set aside amount for fiscal year 2011 is \$596,000. The School District anticipates \$639,000 in qualifying expenditures during the current fiscal year. Therefore, no reserve for textbooks and instructional materials is forecasted.

Capital and Maintenance Set-Aside

The set aside amount for fiscal year 2011 is \$596,000. The School District anticipates offsets from property taxes from the permanent improvement and classroom facilities levies of \$84,000 and \$650,000, respectively, as well as qualifying expenditures of \$739,000 to exceed the set aside requirement amount for fiscal year 2011. Therefore, no reserve amount is forecasted for capital acquisition and improvements.

Bus Purchases

Since fiscal year 2002, the School District has purchased school buses only during fiscal years 2003 and 2008 resulting in the accumulation of bus purchase allowance money of \$82,000 for the past fiscal years. The School District did not receive any bus purchase allowance in fiscal year 2010 and does not anticipate receiving any during fiscal year 2011. Therefore, an \$82,000 reserve amount is forecasted for bus purchase for fiscal year 2011.

Note 10 - Levies

In the past eleven years, the School District has not placed any levies on the ballot.

Note 11 – Pending Litigation

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

Note 12 – Financial Planning and Supervision Commission

On April 3, 2003, the School District was declared to be in a state of "Fiscal Emergency" by the Auditor of State. Legislation effective September 1996, permitted this declaration due to the School District's declining financial condition. In accordance with the law, a five-member Financial Planning and Supervision Commission has been established to oversee the financial affairs of the School District. The

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Commission is comprised of the State Superintendent of Public Instruction and the State Director of Budget and Management or their designees, and three appointed members. The appointments are made by the Governor of the State of Ohio, the State Superintendent of Public Instruction and the Mayor of the City of East Cleveland. The Commission's primary charge is to develop, adopt and implement a financial recovery plan. Once the plan has been adopted, the Board of Education's discretion is limited in that all financial activity of the School District must in accordance with the plan.

The financial recovery plan is amended annually as required under State Law. The recovery plan update establishes the response to the 90 day report from the State Auditor's office as a priority for fiscal year 2010. In addition, the plan requires the School District to monitor the levels of staffing for teachers, administrators and classified personnel with previously adopted staffing levels to be adjusted once student enrollment for the 2011 fiscal year is known and the School District's requests for personnel changes are finalized.

Note 13 - Information Related to Periods Beyond the Forecast Period

Management is required to annually prepare and file a five-year financial plan with the Ohio Department of Education. Management believes that the following information, although it does not constitute a financial forecast, is necessary in order for users to make a meaningful analysis of the forecast results. The plan filed with the Ohio Department of Education in October 2010 covered fiscal years 2011 through 2015 and assumes the continued operation of the School District with fairly consistent revenues. The plan also assumes increases in salaries and benefits for fiscal years 2011 through 2014. The operating surplus decreases to \$2,042,000 for fiscal year 2014. An updated five-year financial plan is required to be filed with the Ohio Department of Education by the end of May 2011 and will cover fiscal years 2011 through 2015.

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



Dave Yost • Auditor of State

EAST CLEVELAND CITY SCHOOL DISTRICT

CUYAHOGA COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
FEBRUARY 8, 2011**