



Dave Yost • Auditor of State

East Cleveland City School District
Basic Financial Statements
For the Fiscal Year Ended June 30, 2010
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Dave Yost • Auditor of State

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, 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, 2010 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.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the East Cleveland City School District, Cuyahoga County, Ohio, as of June 30, 2010, and the respective changes in financial position and where applicable, cash flows, thereof and the respective budgetary comparisons for the General Fund and Title I Fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated May 6, 2011, 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.

Accounting principles generally accepted in the United States of America require this presentation to include *Management's discussion and analysis, required budgetary comparisons for the General Fund and Title I Fund*, as listed in the table of contents, to supplement the basic financial statements. Although this information is not part of the basic financial statements, the Governmental Accounting Standards Board considers it essential for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any other assurance.

We conducted our audit to opine on the financial statements that collectively comprise the District's basic financial statements taken as a whole. The schedule of federal awards receipts and expenditures provides additional information required by the U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the basic financial statements. The schedule of federal awards receipts and expenditures is management's responsibility, and was derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. This schedule was subject to the auditing procedures we applied to the basic financial statements. We also applied certain additional procedures, including comparing and reconciling this information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, in accordance with auditing standards generally accepted in the United States of America. In our opinion, this information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.



Dave Yost
Auditor of State

May 6, 2011

East Cleveland City School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2010
Unaudited

The discussion and analysis of the East Cleveland City School District's (the School District) financial performance provides an overall review of the School District's financial activities for the fiscal year ended June 30, 2010. The intent of this discussion and analysis is to look at the School District's financial performance as a whole; readers should also review the basic financial statements as well as the notes to the basic financial statements to enhance their understanding of the School District's financial performance.

Financial Highlights

Key financial highlights for fiscal year 2010 are as follows:

- The School District has faced declining enrollment the past few years. Enrollment dropped by 27 students in fiscal year 2010 from the prior year; however, the related loss on revenue was offset by increased State Foundation revenue and State Fiscal Stabilization funding.
- General revenues accounted for the majority of all revenues, with intergovernmental revenues representing the largest share of those revenues. Program revenues of \$16,640,043 accounted for the remainder of all revenues.
- Overall expenses decreased during fiscal year 2010. Despite negotiated salary agreements that approved a step increase and a three percent base increase effective at the beginning of the fiscal year, these increases were offset by 39 higher earning employees leaving being replaced with 39 employees making lower wages.
- The balance in the School District's governmental funds increased from the prior year.

Using this Annual Financial Report

This annual report consists of a series of financial statements and notes to those statements. These statements are presented following the requirements of Governmental Accounting Standards Board ("GASB") Statement No. 34, and are organized so the reader can understand the East Cleveland City School District as a financial whole, an entire operating entity. The statements then proceed to provide an increasingly detailed look at specific financial activities.

The *Statement of Net Assets* and *Statement of Activities* provide information about the activities of the whole School District, presenting both an aggregate view of the School District's finances and a longer-term view of those finances. Fund financial statements provide the next level of detail. For governmental funds, these statements tell how services were financed in the short-term as well as what remains for future spending. The fund financial statements also look at the School District's most significant funds with all other non-major funds presented in total in one column. In the case of the School District, the general fund is the most significant fund, although the title I special revenue fund is also considered to be a major fund.

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Reporting on the District as a Whole

Statement of Net Assets and the Statement of Activities

While this document contains all of the funds used by the School District to provide programs and activities, the view of the School District as a whole looks at all financial transactions and asks the questions “Are we in a better financial position this year than last?” and “Why” or “Why not”. The Statement of Net Assets and the Statement of Activities provide the basis for answering these questions. The statements include *all assets* and *liabilities* using the *accrual basis of accounting* similar to the accounting used by most private-sector companies. This basis of accounting recognizes all of the current year’s revenues and expenses regardless of when cash is received or paid.

These two statements report the School District’s *net assets* and any changes in those assets. The change in net assets is important because it tells the reader that, for the School District as a whole, the *financial position* of the School District has improved or diminished. The cause of this change may be the result of many factors, some strictly within the scope of the School District, some not. External factors include the School District’s property tax base, community demographics, current property tax laws in Ohio restricting revenue growth, required educational programs and other factors.

The *Statement of Net Assets* and the *Statement of Activities* is represented in one type of activity; Governmental Activities. The School District’s programs and services are reported here including instruction, support services, operation and maintenance of plant, pupil transportation and extracurricular activities as well as food service operations.

Reporting the School District’s Most Significant Funds

Fund Financial Statements

The analysis of the School District’s major fund begins on page 9. Fund financial reports provide detailed information about the School District’s major funds. The School District uses many funds to account for a multitude of financial transactions. However, the fund financial statements focus on the School District’s most significant funds. The School District’s only major funds are general fund and title I special revenue fund.

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

Fiduciary Funds The School District has only one type of fiduciary funds, agency funds. The agency funds are used to account for resources held for the benefit of parties outside the School District. The

East Cleveland City School District
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agency funds are not reflected on the government-wide statements because the resources from that fund are not available to support the School District's programs.

The District as a Whole

Recall that the *Statement of Net Assets* provides the perspective of the School District as a whole, showing assets, liabilities and the difference between them (net assets). Table 1 provides a summary of the School District's net assets for fiscal year 2010 compared to fiscal year 2009:

Table 1
Net Assets

	Governmental Activities		
	2010	2009	Change
Assets			
Current and Other Assets	\$61,846,887	\$59,645,571	\$2,201,316
Capital Assets, Net	85,662,140	87,705,655	(2,043,515)
<i>Total Assets</i>	<u>147,509,027</u>	<u>147,351,226</u>	<u>157,801</u>
Liabilities			
Current and Other Liabilities	10,763,755	11,899,281	(1,135,526)
Long-Term Liabilities:			
Due Within One Year	1,804,498	5,091,226	(3,286,728)
Due in More than One Year	10,367,568	8,793,406	1,574,162
<i>Total Liabilities</i>	<u>22,935,821</u>	<u>25,783,913</u>	<u>(2,848,092)</u>
Net Assets			
Invested in Capital Assets, Net of Debt	79,651,515	81,467,172	(1,815,657)
Restricted:			
Capital Projects	1,550,062	2,003,876	(453,814)
Debt Service	2,763,711	2,576,768	186,943
Other Purposes	2,455,125	3,690,380	(1,235,255)
Unrestricted	38,152,793	31,829,117	6,323,676
<i>Total</i>	<u>\$124,573,206</u>	<u>\$121,567,313</u>	<u>\$3,005,893</u>

By comparing assets and liabilities, one can see the overall position of the School District has improved as evidenced by the increase in net assets due to increases in cash, and intergovernmental receivables.

East Cleveland City School District
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Table 2 shows the changes in net assets for the fiscal year ended June 30, 2010 compared to fiscal year 2009.

Table 2
Change in Net Assets

	Governmental Activities		
	2010	2009	Change
Revenues			
Program Revenues:			
Charges for Services and Sales	\$4,438,531	\$3,966,608	\$471,923
Operating Grants and Contributions	12,201,512	15,290,299	(3,088,787)
Capital Grants and Contributions	0	5,846	(5,846)
<i>Total Program Revenues</i>	<u>16,640,043</u>	<u>19,262,753</u>	<u>(2,622,710)</u>
General Revenues:			
Property Taxes	10,410,186	11,274,579	(864,393)
Grants and Entitlements	36,235,501	34,561,314	1,674,187
Investment Earnings	248,263	516,993	(268,730)
Miscellaneous	234,736	571,027	(336,291)
<i>Total General Revenues</i>	<u>47,128,686</u>	<u>46,923,913</u>	<u>204,773</u>
Total Revenues	<u>63,768,729</u>	<u>66,186,666</u>	<u>(2,417,937)</u>
Program Expenses			
Instruction	35,768,960	35,932,805	163,845
Support Services:			
Pupils	2,684,895	2,777,960	93,065
Instructional Staff	4,170,506	4,372,890	202,384
Board of Education	47,837	45,672	(2,165)
Administration	4,490,662	4,931,575	440,913
Fiscal	1,759,021	1,984,768	225,747
Business	455,469	313,552	(141,917)
Operation and Maintenance of Plant	4,743,138	4,382,508	(360,630)
Pupil Transportation	1,309,512	1,288,473	(21,039)
Central	2,561,117	2,248,125	(312,992)
Operation of Non-Instructional Services:			
Food Services Operations	1,774,382	1,808,898	34,516
Other Non-Instructional Services	180,225	37,682	(142,543)
Extracurricular Activities	455,364	438,574	(16,790)
Interest and Fiscal Charges	361,748	356,557	(5,191)
Total Program Expenses	<u>60,762,836</u>	<u>60,920,039</u>	<u>157,203</u>
<i>Increase in Net Assets</i>	3,005,893	5,266,627	(2,260,734)
<i>Net Assets Beginning of Year</i>	<u>121,567,313</u>	<u>116,300,686</u>	<u>5,266,627</u>
<i>Net Assets End of Year</i>	<u>\$124,573,206</u>	<u>\$121,567,313</u>	<u>\$3,005,893</u>

Governmental Activities

The School District carefully plans its financial future by projecting its revenues and expenses and presents them in a five-year forecast. The five-year forecast changes continually and is presented to and approved by the Board of Education at least twice a year.

East Cleveland City School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2010
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The main sources of revenue for the School District are the State of Ohio payments through the Ohio Evidence Based Model and grants. Although the School District relies upon local property taxes to support its operations, the School District does actively solicit and receive additional grant and entitlement funds to help offset some operating costs. Through additional Federal and State support, the School District received \$1,674,187 more in grant and entitlements not restricted to a specific program than the prior fiscal year. With this in mind, the School District hasn't placed a new operating levy before the voters in over 11 years. Grants, entitlements and contributions made up 56.82 percent of total revenues while property taxes only make up 16.32 percent of total revenues in the School District for fiscal year 2010. Charges for services, investments and miscellaneous revenue made up the remainder of total revenues. The combination of taxes and intergovernmental funding along with substantial beginning net assets have provided for coverage of all expenses in governmental activities in past years.

Total expenses are made up of two main areas: instruction and support services. Support services are made up of many subsections. Instruction costs made up the majority of all governmental expenses. Support services provide services such as busing, guidance, building and ground maintenance, administration, board of education and fiscal. Other areas of expenses are non-instructional services such as food services, extracurricular activities and interest and fiscal charges.

The *Statement of Activities* shows the cost of program services and the charges for services and sales and grants and contributions offsetting those services. Table 3 shows, for governmental activities, the total cost of services and the net cost of services. That is, it identifies the cost of these services supported by tax revenue and unrestricted State entitlements.

Table 3
 Net Cost of Governmental Activities

	Total Cost of Services 2010	Total Cost of Services 2009	Net Cost of Services 2010	Net Cost of Services 2009
Instruction	\$35,768,960	\$35,932,805	(\$26,097,672)	(\$24,849,697)
Support Services:				
Pupils	2,684,895	2,777,960	(2,114,266)	(2,330,160)
Instructional Staff	4,170,506	4,372,890	(1,717,238)	470,358
Board of Education	47,837	45,672	(43,021)	(41,799)
Administration	4,490,662	4,931,575	(3,756,863)	(4,597,962)
Fiscal	1,759,021	1,984,768	(1,446,898)	(1,863,430)
Business	455,469	313,552	(411,693)	(288,709)
Operation and Maintenance of Plant	4,743,138	4,382,508	(4,232,312)	(3,919,349)
Pupil Transportation	1,309,512	1,288,473	(1,129,379)	(1,191,647)
Central	2,561,117	2,248,125	(2,299,960)	(2,039,746)
Operation of Non-Instructional Services:				
Food Service Operations	1,774,382	1,808,898	32,693	(228,390)
Other Non-Instructional Services	180,225	37,682	(147,681)	(37,682)
Extracurricular Activities	455,364	438,574	(396,755)	(382,516)
Interest and Fiscal Charges	361,748	356,557	(361,748)	(356,557)
<i>Total</i>	<u>\$60,762,836</u>	<u>\$60,920,039</u>	<u>(\$44,122,793)</u>	<u>(\$41,657,286)</u>

The dependence on tax revenues and State subsidies for governmental activities is apparent. For all governmental activities, general revenue support is 72.61 percent.

East Cleveland City School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2010
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The School District's Funds

Information about the School District's governmental funds starts on page 13. These funds are accounted for using the modified accrual basis of accounting. All governmental funds had total revenues of \$60,890,587 and expenditures of \$60,411,890. The net change in fund balance for the fiscal year 2010 in the general fund was an increase of \$3,817,627 due to a decrease in expenditures and an overall conservative operating approach. This conservative approach is reflected in the District's continued effort to expend significantly less monies than what is received as revenue. The net change in fund balance for the fiscal year 2010 in the title I special revenue fund was a decrease of \$1,178,473 mainly due to the timing of program expenditures not being reimbursed by grant monies by fiscal year-end. The net change in fund balances for the year in all other governmental funds was a decrease of \$2,160,457.

General Fund Budgeting Highlights

The School District's budget is prepared according to Ohio law and is based on accounting for certain transactions on a basis of cash receipts, disbursements and encumbrances. The most significant budgeted funds are the general fund and title I special revenue fund.

During the course of fiscal year 2010, the School District amended its general fund budget several times, but no change was significant. The general fund actual revenue amount of \$48,426,302 is \$625,908 higher than the final budgeted amount of \$47,800,394 and \$1,322,695 higher than the original budgeted revenues of \$47,103,607. The difference between the actual revenues and original and final budgeted amounts is due to conservative tax and intergovernmental revenue estimates for the fiscal year. The final budgeted expenditures and actual expenditures were in the amount of \$45,821,396. The School District ended the current fiscal year with a fund balance of \$27,417,984, a decrease of \$2,015,464 from fiscal year 2009, and \$2,950,349 lower than what was estimated.

The School District uses a modified site-based budget technique which is designed to tightly control site budgets while providing flexibility for site management. The School District prepares and monitors a detailed cashflow plan for the general fund annually. Actual cashflow is compared to month-to-date and year-to-date estimates, and a monthly report is prepared for top management and the Board of Education.

East Cleveland City School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2010
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Capital Assets and Debt Administration

Capital Assets

Table 4 shows fiscal year 2010 balances compared to fiscal year 2009.

Table 4
 Capital Assets at June 30
 (Net of Depreciation)

	Governmental Activities	
	2010	2009
Land	\$2,389,900	\$2,389,900
Land Improvements	1,696,957	1,819,700
Buildings and Improvements	78,754,924	80,621,260
Furniture and Equipment	2,442,219	2,379,209
Vehicles	72,475	96,668
Textbooks	305,665	398,918
	\$85,662,140	\$87,705,655

All capital assets, except land, are reported net of depreciation. The decrease in capital assets was due to current year depreciation outpacing acquisitions of capital assets. The School District replaced all buildings in the School District. For additional information on capital assets, see Note 10 of the notes to the basic financial statements.

For fiscal year 2010, Ohio law required school districts to expend or otherwise reserve three percent of qualifying revenues for the purpose of capital improvements and an additional three percent for textbooks and instructional materials. For fiscal year 2010, this amounted to \$588,189 for each purpose. The School District had qualifying disbursements exceeding these requirements. See Note 19 for additional set-aside information.

Debt

At June 30, 2010, the School District had the following outstanding debt:

Table 5
 Outstanding Debt at June 30

	Governmental Activities	
	2010	2009
General Obligation Bonds:		
1999 Capital Appreciation Bonds	\$430,618	\$664,716
Accretion on 1999 Capital Appreciation Bonds	529,262	725,406
2007 School Improvement Refunding Bonds	5,788,302	5,802,059
Totals	\$6,748,182	\$7,192,181

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The School District's general obligation bonds were issued for the purposes of renovations of all School District facilities over a ten year period.

The School District's overall debt margin was \$16,522,266 with an unvoted debt margin of \$236,843. For additional information on long-term obligations, see Note 18 of the notes to the basic financial statements.

Current Financial Related Activities

As the preceding information shows, the School District is dependent on property taxes. Property tax revenue does not increase solely as a result of inflation. Therefore, the School District must continue to monitor its revenues and expenses to ensure the public's confidence and support.

Total assessed value in fiscal year 2010 decreased from the prior fiscal year, due to the nine percent decrease in property taxes that took place effective April 2010. The School District does not anticipate any meaningful growth in revenue as a result of any of the changes in taxes. Based on these factors, the Board of Education and the administration of the School District must maintain careful financial planning and prudent fiscal management in order to preserve the financial stability of the School District.

Challenges and Opportunities

On March 12, 2003, the School District was declared by the Auditor of State to be in a state of "fiscal emergency" based on an anticipated deficit at June 30, 2003. To generate additional funds the School District borrowed from the State Solvency Fund, and cut spending through elimination of jobs and closing facilities. Today the School District has paid off the loan from the State Solvency Fund and is working hard to maintain positive fund balances in these dire economic times.

The goal of the School District continues to be to maintain the highest standards of service to our students, parents and community. In keeping with its mission statement the Board of Education has adopted an Economy and Efficiency Plan.

The mission of the School District is to provide the children of East Cleveland with the academic and life skills needed for each and every one to be a success in the 21st Century.

To meet these goals it is imperative that the School District's management and staff continue to carefully and prudently plan in order to provide the resources and education required to meet student needs over the next several years.

Contacting the School District's Financial Management

This financial report is designed to provide our citizens, taxpayers, investors and creditors with a general overview of the School District's finances and to show the School District's accountability for the money it receives. If you have any questions about this report or need additional financial information, contact the Treasurer of East Cleveland City School District, 14305 Shaw Avenue Modular, East Cleveland, OH 44112.

East Cleveland City School District

Statement of Net Assets

June 30, 2010

	<u>Governmental Activities</u>
Assets	
Equity in Pooled Cash and Cash Equivalents	\$41,049,581
Cash and Cash Equivalents in Segregated Accounts	9,480
Accounts Receivable	51,422
Intergovernmental Receivable	2,166,528
Materials and Supplies Inventory	11,147
Property Taxes Receivable	18,350,434
Deferred Charges	208,295
Nondepreciable Capital Assets	2,389,900
Depreciable Capital Assets	<u>83,272,240</u>
<i>Total Assets</i>	<u>147,509,027</u>
Liabilities	
Accounts Payable	264,476
Accrued Wages and Benefits Payable	2,585,514
Intergovernmental Payable	870,253
Deferred Revenue	6,284,126
Matured Compensated Absences Payable	714,261
Accrued Interest Payable	45,125
Long-Term Liabilities:	
Due Within One Year	1,804,498
Due in More Than One Year	<u>10,367,568</u>
<i>Total Liabilities</i>	<u>22,935,821</u>
Net Assets	
Invested in Capital Assets, Net of Related Debt	79,651,515
Restricted for:	
Capital Projects	1,550,062
Debt Service	2,763,711
Food Service	999,802
Student Services	583,214
Other Purposes	872,109
Unrestricted	<u>38,152,793</u>
<i>Total Net Assets</i>	<u>\$124,573,206</u>

See accompanying notes to the basic financial statements

East Cleveland City School District
Statement of Activities
For the Fiscal Year Ended June 30, 2010

	Program Revenues			Net (Expense) Revenue and Changes in Net Assets
	Expenses	Charges for Services and Sales	Operating Grants and Contributions	Governmental Activities
Governmental Activities				
Instruction:				
Regular	\$16,041,505	\$1,201,051	\$2,430,294	(\$12,410,160)
Special	13,260,784	769,006	4,629,450	(7,862,328)
Vocational	1,600,320	149,067	10,383	(1,440,870)
Adult/Continuing	77,909	0	0	(77,909)
Student Intervention Services	4,788,442	482,037	0	(4,306,405)
Support Services:				
Pupil	2,684,895	197,183	373,446	(2,114,266)
Instructional Staff	4,170,506	135,118	2,318,150	(1,717,238)
Board of Education	47,837	4,816	0	(43,021)
Administration	4,490,662	336,544	397,255	(3,756,863)
Fiscal	1,759,021	148,661	163,462	(1,446,898)
Business	455,469	43,776	0	(411,693)
Operation and Maintenance of Plant	4,743,138	473,111	37,715	(4,232,312)
Pupil Transportation	1,309,512	113,501	66,632	(1,129,379)
Central	2,561,117	240,189	20,968	(2,299,960)
Operation of Non-Instructional Services:				
Food Service Operations	1,774,382	86,362	1,720,713	32,693
Other Non-Instructional Services	180,225	0	32,544	(147,681)
Extracurricular Activities	455,364	58,109	500	(396,755)
Interest and Fiscal Charges	361,748	0	0	(361,748)
<i>Total Governmental Activities</i>	<u>\$60,762,836</u>	<u>\$4,438,531</u>	<u>\$12,201,512</u>	<u>(44,122,793)</u>
General Revenues				
Property Taxes Levied for:				
General Purposes				9,508,431
Debt Service				855,217
Capital Outlay				46,538
Grants and Entitlements not Restricted to Specific Programs				36,235,501
Investment Earnings				248,263
Miscellaneous				234,736
<i>Total General Revenues</i>				<u>47,128,686</u>
Change in Net Assets				3,005,893
<i>Net Assets Beginning of Year</i>				<u>121,567,313</u>
<i>Net Assets End of Year</i>				<u>\$124,573,206</u>

See accompanying notes to the basic financial statements

East Cleveland City School District

Balance Sheet

Governmental Funds

June 30, 2010

	General	Title I	Other Governmental Funds	Total Governmental Funds
Assets				
Equity in Pooled Cash and Cash Equivalents	\$29,892,536	\$4,736,227	\$6,420,818	\$41,049,581
Cash and Cash Equivalents in Segregated Accounts	5,234	601	3,645	9,480
Accounts Receivable	704	0	50,718	51,422
Intergovernmental Receivable	117,572	1,112,993	935,963	2,166,528
Materials and Supplies Inventory	0	0	11,147	11,147
Interfund Receivable	6,402,548	0	19,867	6,422,415
Property Taxes Receivable	16,540,657	0	1,809,777	18,350,434
<i>Total Assets</i>	<u>\$52,959,251</u>	<u>\$5,849,821</u>	<u>\$9,251,935</u>	<u>\$68,061,007</u>
Liabilities and Fund Balances				
Liabilities				
Accounts Payable	\$181,602	\$21,402	\$61,472	\$264,476
Accrued Wages and Benefits Payable	2,015,965	167,764	401,785	2,585,514
Intergovernmental Payable	633,653	42,229	194,371	870,253
Interfund Payable	7,362	4,680,350	1,734,703	6,422,415
Deferred Revenue	15,514,498	1,112,993	2,407,730	19,035,221
Matured Compensated Absences Payable	574,170	11,825	128,266	714,261
<i>Total Liabilities</i>	<u>18,927,250</u>	<u>6,036,563</u>	<u>4,928,327</u>	<u>29,892,140</u>
Fund Balances				
Reserved for Encumbrances	2,227,849	1,026,663	1,220,715	4,475,227
Reserved for Property Taxes	1,113,410	0	128,735	1,242,145
Unreserved, Undesignated Reported in:				
General Fund	30,690,742	0	0	30,690,742
Special Revenue Funds (Deficit)	0	(1,213,405)	517,422	(695,983)
Debt Service Fund	0	0	1,696,720	1,696,720
Capital Projects Funds	0	0	760,016	760,016
<i>Total Fund Balances (Deficit)</i>	<u>34,032,001</u>	<u>(186,742)</u>	<u>4,323,608</u>	<u>38,168,867</u>
<i>Total Liabilities and Fund Balances</i>	<u>\$52,959,251</u>	<u>\$5,849,821</u>	<u>\$9,251,935</u>	<u>\$68,061,007</u>

See accompanying notes to the basic financial statements

East Cleveland City School District
*Reconciliation of Total Governmental Fund Balances to
 Net Assets of Governmental Activities
 June 30, 2010*

Total Governmental Funds Balances	\$38,168,867
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*Amounts reported for governmental activities in the
 statement of net assets are different because*

Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.	85,662,140
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Other long-term assets are not available to pay for current-period expenditures and therefore are deferred in the funds:

Delinquent Property Taxes	10,820,644	
Grants	1,839,838	
Miscellaneous	90,613	
	<u> </u>	

Total	12,751,095
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Bond issuance costs will be amortized over the life of the bonds on the statement of net assets.	208,295
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In the statement of activities, interest is accrued on outstanding bonds, whereas in governmental funds, an interest expenditure is reported when due.	(45,125)
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Long-term liabilities are not due and payable in the current period and therefore are not reported in the funds:

General Obligation Bonds	(5,645,000)	
Capital Appreciation Bonds	(430,618)	
Bond Premium	(330,251)	
Accounting Loss	186,949	
Accretion	(529,262)	
Compensated Absences	<u>(5,423,884)</u>	

Total	<u>(12,172,066)</u>
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<i>Net Assets of Governmental Activities</i>	<u><u>\$124,573,206</u></u>
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See accompanying notes to the basic financial statements

East Cleveland City School District
Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds
For the Fiscal Year Ended June 30, 2010

	General	Title I	Other Governmental Funds	Total Governmental Funds
Revenues				
Property Taxes	\$7,525,282	\$0	\$657,140	\$8,182,422
Intergovernmental	35,910,383	3,582,695	8,066,485	47,559,563
Interest	244,078	0	4,185	248,263
Charges for Services	0	0	86,362	86,362
Tuition and Fees	4,317,882	0	0	4,317,882
Rentals	2,637	0	0	2,637
Extracurricular Activities	7,698	0	23,952	31,650
Contributions and Donations	6,564	0	311,121	317,685
Miscellaneous	89,520	0	54,603	144,123
<i>Total Revenues</i>	<u>48,104,044</u>	<u>3,582,695</u>	<u>9,203,848</u>	<u>60,890,587</u>
Expenditures				
Current:				
Instruction:				
Regular	12,508,756	7,600	2,970,706	15,487,062
Special	7,685,512	3,075,105	2,084,461	12,845,078
Vocational	1,483,572	0	12,485	1,496,057
Adult/Continuing	66,993	0	10,916	77,909
Student Intervention Services	4,788,442	0	0	4,788,442
Support Services:				
Pupil	2,009,729	267,933	348,506	2,626,168
Instructional Staff	1,369,683	1,229,493	1,567,979	4,167,155
Board of Education	47,837	0	0	47,837
Administration	3,488,701	220,535	788,587	4,497,823
Fiscal	1,488,132	0	185,272	1,673,404
Business	441,552	0	0	441,552
Operation and Maintenance of Plant	4,711,433	12,361	440,023	5,163,817
Pupil Transportation	1,137,823	14,422	76,732	1,228,977
Central	2,426,696	0	10,577	2,437,273
Operation of Non-Instructional Services:				
Food Service Operations	0	0	1,786,295	1,786,295
Other Non-Instructional Services	0	33,719	4,182	37,901
Extracurricular Activities	299,552	0	139,821	439,373
Capital Outlay	0	0	384,017	384,017
Debt Service:				
Principal Retirement	0	0	234,098	234,098
Capital Appreciation Bonds Interest	0	0	280,902	280,902
Interest and Fiscal Charges	0	0	270,750	270,750
<i>Total Expenditures</i>	<u>43,954,413</u>	<u>4,861,168</u>	<u>11,596,309</u>	<u>60,411,890</u>
<i>Excess of Revenues Over (Under) Expenditures</i>	<u>4,149,631</u>	<u>(1,278,473)</u>	<u>(2,392,461)</u>	<u>478,697</u>
Other Financing Sources (Uses)				
Transfers In	0	100,000	232,004	332,004
Transfers Out	(332,004)	0	0	(332,004)
<i>Total Other Financing Sources (Uses)</i>	<u>(332,004)</u>	<u>100,000</u>	<u>232,004</u>	<u>0</u>
<i>Net Change in Fund Balances</i>	3,817,627	(1,178,473)	(2,160,457)	478,697
<i>Fund Balances Beginning of Year</i>	<u>30,214,374</u>	<u>991,731</u>	<u>6,484,065</u>	<u>37,690,170</u>
<i>Fund Balances (Deficit) End of Year</i>	<u>\$34,032,001</u>	<u>(\$186,742)</u>	<u>\$4,323,608</u>	<u>\$38,168,867</u>

See accompanying notes to the basic financial statements

East Cleveland City School District
*Reconciliation of the Statement of Revenues, Expenditures and Changes
in Fund Balances of Governmental Funds to the Statement of Activities
For the Fiscal Year Ended June 30, 2010*

Net Change in Fund Balances -Total Governmental Funds \$478,697

*Amounts reported for governmental activities in the
statement of activities are different because*

Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense.

This is the amount by which depreciation exceeded capital outlay in the current period.

Capital Asset Additions	1,062,101	
Current Year Depreciation	<u>(3,105,616)</u>	
Total		(2,043,515)

Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.

Delinquent Property Taxes	2,227,764	
Intergovernmental	559,765	
Miscellaneous	<u>90,613</u>	
Total		2,878,142

In the statement of activities, interest is accrued on outstanding bonds, bond accretion, bond premium, bond issuance costs and loss on refunding are amortized over the term of the bonds, whereas in governmental funds an interest expenditure is reported when due and premiums, issuance costs and loss on refunding are reported when the bonds are issued.

Annual Accretion	(84,758)	
Amortization of Bond Premium	31,704	
Amortization of Accounting Loss	(17,947)	
Amortization of Bond Issuance Costs	<u>(19,997)</u>	
Total		(90,998)

Repayment of bond principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets. 515,000

Compensated absences reported in the statement of activities, do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds. 1,268,567

Change in Net Assets of Governmental Activities \$3,005,893

See accompanying notes to the basic financial statements

East Cleveland City School District
Statement of Revenues, Expenditures and Changes
in Fund Balance - Budget (Non-GAAP Basis) and Actual
General Fund
For the Fiscal Year Ended June 30, 2010

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues				
Property Taxes	\$7,516,021	\$7,627,203	\$7,722,908	\$95,705
Intergovernmental	34,921,806	35,438,392	35,888,075	449,683
Interest	324,278	329,075	333,242	4,167
Tuition and Fees	4,201,729	4,263,884	4,317,882	53,998
Rentals	2,566	2,604	2,637	33
Extracurricular	0	0	7,698	7,698
Contributions and Donations	2,773	2,814	6,564	3,750
Miscellaneous	134,434	136,422	147,296	10,874
<i>Total Revenues</i>	47,103,607	47,800,394	48,426,302	625,908
Expenditures				
Current:				
Instruction:				
Regular	11,691,553	12,267,415	12,267,415	0
Special	7,356,013	7,884,951	7,884,951	0
Vocational	1,423,260	1,507,845	1,507,845	0
Adult/Continuing	65,245	66,993	66,993	0
Student Intervention Services	4,664,737	4,790,003	4,790,003	0
Support Services:				
Pupil	1,910,928	1,972,220	1,972,220	0
Instructional Staff	1,257,160	1,338,022	1,338,022	0
Board of Education	46,130	51,340	51,340	0
Administration	3,356,333	3,518,923	3,518,923	0
Fiscal	1,526,824	1,720,704	1,720,704	0
Business	324,385	535,731	535,731	0
Operation and Maintenance of Plant	4,646,349	5,672,436	5,672,436	0
Pupil Transportation	1,088,361	1,262,470	1,262,470	0
Central	2,387,698	2,931,665	2,931,665	0
Extracurricular Activities	292,831	300,678	300,678	0
<i>Total Expenditures</i>	42,037,807	45,821,396	45,821,396	0
<i>Excess of Revenues Over Expenditures</i>	5,065,800	1,978,998	2,604,906	625,908
Other Financing Sources (Uses)				
Advances In	7,032,603	7,032,603	1,377,073	(5,655,530)
Advances Out	(11,311,827)	(7,744,712)	(5,665,439)	2,079,273
Transfers Out	(332,004)	(332,004)	(332,004)	0
<i>Total Other Financing Sources (Uses)</i>	(4,611,228)	(1,044,113)	(4,620,370)	(3,576,257)
<i>Net Change in Fund Balance</i>	454,572	934,885	(2,015,464)	(2,950,349)
<i>Fund Balance Beginning of Year</i>	26,893,411	26,893,411	26,893,411	0
Prior Year Encumbrances Appropriated	2,540,037	2,540,037	2,540,037	0
<i>Fund Balance End of Year</i>	\$29,888,020	\$30,368,333	\$27,417,984	(\$2,950,349)

See accompanying notes to the basic financial statements

East Cleveland City School District
Statement of Revenues, Expenditures and Changes
in Fund Balance - Budget (Non-GAAP Basis) and Actual
Title I Fund
For the Fiscal Year Ended June 30, 2010

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues				
Intergovernmental	\$4,285,743	\$7,712,771	\$3,582,695	(\$4,130,076)
Expenditures				
Current:				
Instruction:				
Regular	8,927	7,367	7,367	0
Special	3,694,952	5,398,451	3,556,517	1,841,934
Support Services:				
Pupil	270,630	484,432	259,198	225,234
Instructional Staff	1,489,113	2,789,827	1,665,199	1,124,628
Administration	526,734	518,934	418,994	99,940
Operation and Maintenance of Plant	37,916	107,491	29,275	78,216
Pupil Transportation	47,221	133,283	14,408	118,875
Operation of Non-Instructional Services:				
Community Services	55,721	208,554	36,091	172,463
<i>Total Expenditures</i>	6,131,214	9,648,339	5,987,049	3,661,290
<i>Excess of Revenues Under Expenditures</i>	(1,845,471)	(1,935,568)	(2,404,354)	(468,786)
Other Financing Sources (Uses)				
Advances In	180,000	504,897	4,101,053	3,596,156
Advances Out	(269,955)	(204,492)	(269,955)	(65,463)
Transfers In	0	100,000	100,000	0
<i>Total Other Financing Sources (Uses)</i>	(89,955)	400,405	3,931,098	3,530,693
<i>Net Change in Fund Balance</i>	(1,935,426)	(1,535,163)	1,526,744	3,061,907
<i>Fund Balance Beginning of Year</i>	1,306,186	1,306,186	1,306,186	0
Prior Year Encumbrances Appropriated	855,232	855,232	855,232	0
<i>Fund Balance End of Year</i>	\$225,992	\$626,255	\$3,688,162	\$3,061,907

See accompanying notes to the basic financial statements

East Cleveland City School District
Statement of Fiduciary Assets and Liabilities
Agency Funds
June 30, 2010

	<u>Agency</u>
Assets	
Equity in Pooled Cash and Cash Equivalents	\$69,461
Liabilities	
Undistributed Monies	\$13,060
Due to Students	56,401
<i>Total Liabilities</i>	<u>\$69,461</u>

See accompanying notes to the basic financial statements

East Cleveland City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2010

Note 1 - Description of the School District and Reporting Entity

East Cleveland City School District (the School District) is a city school district as defined by Section 3311.02 of the Ohio Revised Code. 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 School District is one of the 614 school districts in the State of Ohio and one of 33 in Cuyahoga County, and provides education to 3,463 students in grades K through 12. The School District is located in northeast Ohio, covers approximately 2.8 square miles and includes all of the City of East Cleveland and a small portion of the City of Cleveland Heights. The operation of the School District is governed by an elected five-member Board of Education.

The Board controls the School District's five elementary schools, a middle school and a high school, staffed by 144 classified personnel, 262 certified teaching personnel and 40 administrators who provide services to community members and students.

On March 12, 2003, the School District was declared to be in a state of "Fiscal Emergency" by the Auditor of State under section 3316.03B(5), Revised Code. In accordance with the law, a five-member Financial Planning and Supervision Commission was established to oversee all financial affairs of the School District. The Commission is comprised of two appointees of the State Superintendent of Public Instruction, an appointee of the State Director of the Office of Budget and Management, an appointee of the Governor, and an appointee of the Mayor of East Cleveland. The Commission's primary charge is to develop, adopt and implement a financial recovery plan. Once the plan is adopted, the Board of Education's discretion is limited in that all financial activity of the School District must be in accordance with the plan. The recovery plan was adopted on July 29, 2003. It is updated annually according to State law. Staffing levels will be monitored and adjusted once enrollment is known for the 2010-2011 school year. The School District will also monitor spending in areas it can exercise more discretion. The School District will also make it a priority to address the comments in the Auditor of State's Report on Accounting Methods.

Reporting Entity

A reporting entity is comprised of the primary government, component units and other organizations that are included to insure that the financial statements are not misleading. The primary government consists of all funds, departments, boards and agencies that are not legally separate from the School District. For the School District, the agencies and departments provide the following services: 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. The School District is financially accountable for an organization if the School District appoints a voting majority of the organization's governing board and (1) the School District is able to significantly influence the programs or services performed or provided by the organization; or (2) the School District is legally entitled to or can otherwise access the organization's resources; the School District is legally obligated or has otherwise assumed the responsibility to finance the deficits of, or provide financial support to, the organization; or the School District is obligated for the debt of the organization. Component units may also include organizations that are fiscally dependent on the School District in that the School District approves the budget, the issuance of debt or the levying of taxes. The School District has no component units.

East Cleveland City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2010

The School District participates in an insurance purchasing pool, a related organization and two jointly governed organizations. These organizations are the Ohio School Boards' Association Workers' Compensation Group Rating Program, East Cleveland Public Library, the Lakeshore Northeast Ohio Computer Association, and Ohio Schools' Council. These organizations are presented in Notes 16, 17 and 20 of the notes to the basic financial statements.

Note 2 - Summary of Significant Accounting Policies

The financial statements of the School District have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The School District also applies Financial Accounting Standards Board (FASB) statements and interpretations issued on or before November 30, 1989, to its governmental activities unless those pronouncements conflict with or contradict GASB pronouncements. The more significant of the School District's accounting policies are described below.

Basis of Presentation

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. These statements usually distinguish between those activities of the School District that are governmental (primarily supported by taxes and intergovernmental revenues) and those that are considered business-type activities (primarily supported by fees and charges). However, the School District has only governmental activities; therefore, no business-type activities are presented.

The statement of net assets presents the financial condition of the governmental activities of the School District at fiscal year-end. The statement of activities presents a comparison between direct expenses and program revenues for each program or function 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, grants and contributions that are restricted to meeting the operational or capital requirements of a particular program and interest earned on grants that is required to be used to support 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 a governmental function is self-financing or draws from the general revenues of the School District.

Fund Financial Statements During the fiscal year, the School District segregates transactions related to certain School District functions or activities in separate funds in order to aid financial management and to demonstrate legal compliance. Fund financial statements are designed to present financial information of the School District at this more detailed level. The focus of governmental fund financial statements is on major funds. Each major fund is presented in a separate column. Nonmajor funds are aggregated and presented in a single column. Fiduciary funds are reported by type.

East Cleveland City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2010

Fund Accounting

The School District uses funds to maintain its financial records during the fiscal year. A fund is defined as a fiscal and accounting entity with a self balancing set of accounts. The funds of the School District are divided into two categories: governmental and fiduciary.

Governmental Funds Governmental funds are those through which most governmental functions typically are financed. Governmental fund reporting focuses on the sources, uses and balances of current financial resources. Expendable assets are assigned to the various governmental funds according to the purposes for which they may or must be used. Current liabilities are assigned to the fund from which they will be paid. The difference between governmental fund assets and liabilities is reported as fund balance. The following are the School District's major 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 expended or transferred according to the general laws of Ohio.

Title I Fund This special revenue fund accounts for Federal monies used to assist the School District in meeting the needs of educationally deprived children.

The other governmental funds of the School District account for grants and other resources whose use is restricted to a particular purpose.

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

Measurement Focus

Government-wide Financial Statements The government-wide financial statements are prepared using the economic resources measurement focus. All assets and all liabilities associated with the operation of the School District are included on the statement of net assets. The statement of activities presents increases (i.e., revenues) and decreases (i.e., expenses) in total net assets.

Fund Financial Statements All governmental funds are accounted for using a flow of current financial resources measurement focus. With this measurement focus, only current assets and current liabilities generally are included on the balance sheet. The statement of revenues, expenditures and changes in fund balances reports on the sources (i.e., revenues and other financing sources) and uses (i.e., expenditures and other financing uses) of current financial resources. This approach differs from the manner in which the governmental activities of the government-wide financial statements are prepared. Governmental fund financial statements therefore include a reconciliation with brief explanations to better identify the relationship between the government-wide statements and the statements for governmental funds.

East Cleveland City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2010

Basis of Accounting

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

Revenues - Exchange and Non-Exchange Transactions Revenue resulting from exchange transactions, in which each party gives and receives essentially equal value, is recorded on the accrual basis when the exchange takes place. On a modified accrual basis, revenue is recorded in the fiscal year in which the resources are measurable and become available. Available means that the resources will be collected within the current fiscal year or are expected to be collected soon enough thereafter to be used to pay liabilities of the current fiscal year. For the School District, available means expected to be received within sixty days of fiscal year-end.

Nonexchange transactions, in which the School District receives value without directly giving equal value in return, include property taxes, grants, entitlements and donations. On an accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied. (See Note 8). Revenue from grants, entitlements and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the fiscal year when the resources are required to be used or the fiscal year when use is first permitted, matching requirements, in which the School District must provide local resources to be used for a specified purpose, and expenditure requirements, in which the resources are provided to the School District on a reimbursement basis. On a modified accrual basis, revenue from nonexchange transactions must also be available before it can be recognized.

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

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

Property taxes for which there is an enforceable legal claim as of June 30, 2010, but which were levied to finance fiscal year 2011 operations, have been recorded as deferred revenue. Grants and entitlements received before the eligibility requirements are met are also recorded as deferred revenue.

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

Expenses/Expenditures On the accrual basis of accounting, expenses are recognized at the time they are incurred.

The measurement focus of governmental fund accounting is on decreases in net financial resources (expenditures) rather than expenses. Expenditures are generally recognized in the accounting period in which the related fund liability is incurred, if measurable. Allocations of cost, such as depreciation and amortization, are not recognized in governmental funds.

East Cleveland City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2010

Budgetary Data

All funds, other than agency funds, are legally required to be budgeted and appropriated. The major documents prepared are the tax budget, the appropriation resolution and the certificate of estimated resources, 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 amounts that the Board of Education may appropriate. The appropriation resolution is the Board's authorization to spend resources and set annual limits on expenditures plus encumbrances at a level of control selected by the Board. The legal level of control has been established by the Board of Education at the fund level for all funds. The budgets are monitored at the object level within a function and fund. The Treasurer has been given the authority to allocate appropriations to the function and object levels within each fund.

The certificate of estimated resources may be amended during the fiscal year if projected increases or decreases in revenue are identified by the School District Treasurer. The amounts reported as the original and final budgeted amounts in the budgetary statements reflect the amounts in the amended certificate when the original and final appropriations were passed by the Board of Education.

The appropriation resolution is subject to amendment by the Board throughout the fiscal year with the restriction that appropriations may not exceed estimated revenues by fund. The amounts reported as the original budgeted amounts reflect the first appropriation for that fund that covered the entire fiscal year, including amounts automatically carried over 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. Prior to fiscal year-end, the School District passed an amended appropriation measure which matched appropriations to expenditures plus encumbrances in the majority of categories.

Cash and Cash Equivalents

To improve cash management, cash received by the School District is pooled. 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" on the financial statements.

During fiscal year 2010, the School District's investments were limited to federal home loan bank bonds, federal home loan mortgage corporation bonds and STAR Ohio.

Except for nonparticipating investment contracts, investments are reported at fair value which is based on quoted market prices. Nonparticipating contracts such as certificate of deposits and repurchase agreements are reported at cost.

STAR Ohio is an investment pool managed by the State Treasurer's Office which allows governments within the State to pool their funds for investment purposes. STAR Ohio 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 STAR Ohio are valued at STAR Ohio's share price which is the price the investment could be sold for on June 30, 2010.

Following Ohio statutes, the Board of Education has, by resolution, identified the funds to receive an allocation of interest earnings. Interest revenue credited to the general fund during fiscal year 2010 amounted to \$244,078, which includes \$63,607 assigned from other School District funds.

Investments of the cash management pool and investments with an original maturity of three months or less at the time they are purchased by the School District are presented on the financial statements as cash equivalents. Investments with an initial maturity of more than three months not purchased from the pool are reported as investments.

East Cleveland City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2010

Inventory

Inventories are presented at cost on a first-in, first-out basis and are expended/expensed when used. Inventories consist of materials and supplies held for consumption.

Capital Assets

All capital assets of the School District are classified as general capital assets. These assets generally result from expenditures in the governmental funds. They are reported in the governmental activities column of the government-wide statement of net assets but are not reported in the fund financial statements.

Capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the fiscal year. Donated capital assets are recorded at their fair market values as of the date received. The School District maintains a capitalization threshold of three thousand dollars. The School District does not possess any infrastructure. Improvements are capitalized; the costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not.

All reported capital assets except land and construction in progress are depreciated. Improvements are depreciated over the remaining useful lives of the related capital assets. Depreciation is computed using the straight-line method over the following useful lives:

<u>Description</u>	<u>Governmental Activities Estimated Lives</u>
Buildings and Improvements	10 - 30 years
Furniture and Equipment	10 - 20 years
Vehicles	12 years

Bond Issuance Costs

Bond issuance costs for underwriting fees and bond insurance for the 2007 school improvement refunding general obligation bonds are being amortized using the straight-line method over the life of the bonds on the government-wide statements. The straight-line method of amortization is not materially different from the effective-interest method. On the governmental financial statements, bond issuance costs are reported as expenditure in the fiscal year in which the bonds were issued. Bond issuance costs are generally paid from bond proceeds.

As permitted by State statute, the School District paid bond issuance costs from the bond proceeds and therefore does not consider that portion of the debt to be capital-related debt. That portion of the debt was offset against the unamortized bond issuance costs which were included in the determination of unrestricted net assets. Reporting both within the same element of net assets prevents one classification from being overstated while another is understated by the same amount.

Bond Premium

On government-wide financial statement, bond premiums are deferred and amortized over the term of the bonds using the effective interest method. Bond premiums are presented as an increase of the face amount of the bonds payable. On the governmental fund statements, bond premiums are receipted in the year the bonds are issued.

East Cleveland City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2010

Gain/Loss on Refunding

On the government-wide financial statements, the difference between the reacquisition price (funds required to refund the old debt) and the net carrying amount of the old debt, the gain/loss on refunding, is being amortized as a component of interest expense. This deferred amount is amortized over the life of the old or new debt, whichever is shorter.

Interfund Balances

On fund financial statements, receivables and payables resulting from short-term interfund loans are classified as "interfund receivables/payables." These amounts are eliminated in the governmental activity column of the statement of net assets.

Compensated Absences

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

Sick leave benefits are accrued as a liability using the termination method. An accrual for earned sick leave is made to the extent that it is probable that benefits will result in termination payments. The liability is an estimate based on the School District's past experience of making termination payments.

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

On the governmental fund financial statements, compensated absences are recognized as liabilities and expenditures to the extent payments come due to each period upon the occurrence of employee resignations and retirements. These amounts are reported as "Matured Compensated Absences Payable" in the funds from which the employees who have resigned or retired will be paid.

Accrued Liabilities and Long-Term Obligations

All payables, accrued liabilities and long-term obligations are reported in the government-wide financial statements.

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

Internal Activity

Transfers between governmental activities are eliminated on the government-wide financial statements. Internal events that are allocations of overhead expenses from one function to another or within the same function are eliminated on the Statement of Activities. Interfund payments for services provided and used are not eliminated.

East Cleveland City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2010

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

Fund Balance Reserves

The School District reserves those portions of fund equity which are legally segregated for a specific future use or which do not represent available expendable resources and therefore are not available for appropriation or expenditure. Unreserved fund balance indicates that portion of fund equity which is available for appropriation in future periods. Fund balance reserves have been established for encumbrances and property taxes.

The reserve for property taxes represents taxes recognized as revenue under generally accepted accounting principles but not available for appropriation under State statute.

Net Assets

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction or improvement of those assets. Net assets are reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the School District or through external restrictions imposed by creditors, grantors or laws or regulations of other governments. Net assets restricted for other purposes include public school support, local grants, student activities, education management information systems (EMIS), data communications, and alternative schools.

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

Estimates

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

Note 3 - Changes in Accounting Principles

For fiscal year 2010, the School District has implemented Governmental Accounting Standard Board (GASB) Statement No. 51, "Accounting and Reporting for Intangible Assets", Statement No. 53, "Accounting and Financial Reporting for Derivative Instruments", Statement No. 57, "OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans", and Statement No. 58, "Accounting and Financial Reporting for Chapter 9 Bankruptcies".

GASB Statement No. 51 establishes accounting and financial reporting requirements for intangible assets to reduce inconsistencies thereby enhancing the comparability of accounting and financial reporting of such assets among state and local governments. The implementation of this statement did not result in any change to the School District's financial statements.

GASB Statement No. 53 enhances the usefulness and comparability of derivative instrument information reported by state and local governments. This Statement provides a comprehensive framework for the

East Cleveland City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2010

measurement, recognition, and disclosure of derivative instrument transactions. The implementation of this statement did not result in any change to the School District's financial statements.

GASB Statement No. 57 addresses issues related to the use of the alternative measurement method and the frequency and timing of measurements by employers that participate in agent multiple-employer other postemployment benefit (OPEB) plans (that is, agent employers). The requirements in this Statement will allow more agent employers to use the alternative measurement method to produce actuarially based information for purposes of financial reporting and clarify that OPEB measures reported by agent multiple-employer OPEB plans and their participating employers should be determined at the same minimum frequency and as of a common date to improve the consistency of reporting with regard to funded status and funding progress information. The implementation of this statement did not result in any change in the School District's financial statements.

GASB Statement No. 58 provides accounting and financial reporting guidance for governments that have petitioned for protection from creditors by filing for bankruptcy under Chapter 9 of the United States Bankruptcy Code. The requirements in this Statement will provide more consistent recognition, measurement, display, and disclosure guidance for governments that file for Chapter 9 bankruptcy. The implementation of this statement did not result in any change in the School District's financial statements.

Note 4 – Fund Deficits

At June 30, 2010, the following funds had deficit fund balances:

	<u>Amounts</u>
Major Fund:	
Title I	\$186,742
Non-Major Funds:	
Ohio Reads	6,201
Poverty Aid	239,284
Title VI-B	28,759
Vocational Education	8,980
State Fiscal Stabilization	32,848
Title VI	201
Drug Free Education	7,517
Preschool Handicapped	56,389
Improving Teacher Quality	275,880
Adult Basic Education	48,455

The deficits are due to adjustments for accrued liabilities. The general fund is liable for any deficit in these funds and provides transfers when cash is required, rather than when accruals occur.

Note 5 - Budgetary Basis of Accounting

While the School District is reporting financial position, results of operations and changes in fund balance on the basis of generally accepted accounting principles (GAAP), the budgetary basis as provided by law is based upon accounting for certain transactions on a basis of cash receipts, disbursements and encumbrances. The Statement of Revenues, Expenditures and Changes in Fund Balances - Budget (Non-GAAP Basis) and Actual for the general fund and title I special revenue fund are presented on the budgetary basis to provide a meaningful comparison of actual results with the budget. The major differences between the budget basis and GAAP basis are as follows:

East Cleveland City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2010

1. Revenues are recorded when received in cash (budget basis) as opposed to when susceptible to accrual (GAAP basis).
2. Expenditures are recorded when paid in cash (budget basis) as opposed to when the liability is incurred (GAAP basis).
3. Investments are reported at cost (budget basis) rather than fair value (GAAP basis).
4. Unreported cash represents amounts received by not reported by the School District on the operating statements (budget), but which is reported on the GAAP basis operating statements.
5. Advances in and advances out are operating transactions (budget basis) as opposed to balance sheet transactions (GAAP basis).
6. Encumbrances are treated as expenditures (budget basis) rather than as a reservation of fund balance (GAAP basis).

The following table summarizes the adjustments necessary to reconcile the GAAP basis statement to the budgetary basis statement for the general fund and title I special revenue fund.

Net Change in Fund Balances

	General	Title I
GAAP Basis	\$3,817,627	(\$1,178,473)
Net Adjustment for Revenue Accruals	210,248	0
Advances In	1,377,073	4,101,053
Beginning Unreported Cash	(53,498)	0
Ending Unreported Cash	76,514	0
Beginning Fair Value Adjustment	(57,042)	0
Ending Fair Value Adjustment	146,036	0
Net Adjustment for Expenditure Accruals	753,806	(77,816)
Advances Out	(5,665,439)	(269,955)
Adjustment for Encumbrances	(2,620,789)	(1,048,065)
Budget Basis	(\$2,015,464)	\$1,526,744

Note 6 - Deposits and Investments

Monies held by the School District are classified by State statute into three categories.

Active monies are public monies determined to be necessary to meet current demands upon the School District treasury. Active 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 has identified as not required for use within the current five 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.

East Cleveland City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2010

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

Interim monies held by the School District can be deposited or invested in the following securities:

1. United States Treasury bills, bonds, notes, 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 obligation or security issued by any federal government agency or instrumentality including, but not limited to, the Federal National Mortgage Association, Federal Home Loan Bank, Federal Farm Credit Bank, Federal Home Loan Mortgage Corporation, Government National Mortgage Association, and Student Loan Marketing Association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;
3. Written repurchase agreements in the securities listed above;
4. Bonds and other obligations of the State of Ohio;
5. Time certificates of deposit or savings or deposit accounts including, but not limited to, passbook accounts;
6. No-load money market mutual funds consisting exclusively of obligations described in division (1) or (2);
7. The State Treasurer's investment pool (STAR Ohio); and
8. Commercial paper and bankers' acceptances if training requirements have been met.

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. Investments may only be made through specified dealers and institutions.

Investments

Investments are reported at fair value. As of June 30, 2010, the School District had the following investments:

	Maturity		Total
	Less Than One Year	More Than One Year But Less Than Three Years	
Federal Home Loan Bank Bonds	\$4,019,400	\$5,036,745	\$9,056,145
Federal Home Loan Mortgage Corporation Bonds	0	10,056,300	10,056,300
STAR Ohio	3,478,017	0	3,478,017
Total Investments	\$7,497,417	\$15,093,045	\$22,590,462

Interest Rate Risk As a means of limiting its exposure to fair value losses caused by rising interest rates, the School District's investment policy requires that operating funds be invested primarily in short-term investments maturing within five years from the date of purchase and that the School District's investment

East Cleveland City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2010

portfolio be structured so that securities mature to meet cash requirements for ongoing operations and/or long-term debt payments. The stated intent of the policy is to avoid the need to sell securities prior to maturity.

Credit Risk All investments of the School District carry a rating of AAA by Standard and Poor's. Ohio law requires that STAR Ohio maintain the highest rating provided by at least one nationally recognized standard rating service. The School District has no investment policy that addresses credit risk.

Concentration of Credit Risk The School District places no limit on the amount it may invest in any one issuer. The following is the School District's allocation as of June 30, 2010:

Investment	Percentage of Investments
Federal Home Loan Bank Bonds	40.09 %
Federal Home Loan Mortgage Corporation Bonds	44.52

Note 7 - Receivables

Receivables at June 30, 2010, consisted of taxes, accounts (student fees and tuition), intergovernmental and grants. All receivables are considered collectible in full due to the ability to foreclose for the nonpayment of taxes, the stable condition of State programs, and the current year guarantee of federal funds. All receivables except for delinquent property taxes are expected to be collected within one year. Property taxes, although ultimately collectible, include some portion of delinquencies that will not be collected within one year.

A summary of principal items of intergovernmental receivables follows:

Governmental Activities	Amount
Title I	\$1,112,993
Title VI-R	323,164
Miscellaneous Federal Grants	229,987
Federal Lunch Subsidy	184,217
Title VI - B	98,833
SERS Refund	93,205
School Improvement Subsidy G	60,000
Medicaid Payment	21,484
Preschool Handicapped	19,142
Drug Free Schools	14,861
Title II-D Technology	5,759
ROTC Salary	2,630
Miscellaneous	253
<i>Total Intergovernmental Receivables</i>	<i>\$2,166,528</i>

East Cleveland City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2010

Note 8 - 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 collections 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.

Property taxes include amounts levied against all real property, public utility property and tangible personal property (used in business) located in the School District. Real property tax revenues received in calendar year 2010 represents collections of calendar year 2009 taxes. Real property taxes received in calendar year 2010 were levied after April 1, 2009, on the assessed value listed as of January 1, 2009, the lien date. Assessed values for real property taxes are established by State statute at thirty-five percent of appraised market value. 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.

Public utility property tax revenues received in calendar year 2010 represent collections of calendar year 2009 taxes. Public utility real and tangible personal property taxes received in calendar year 2010 became a lien December 31, 2008, were levied after April 1, 2009 and are collected in 2010 with real property taxes. Public utility real property is assessed at thirty-five percent of true value; public utility tangible personal property currently is assessed at varying percentages of true value.

Tangible personal property tax revenues received in calendar year 2010 (other than public utility property tax) represent the collection of calendar year 2010 taxes levied against local and inter-exchange telephone companies. Tangible personal property taxes received from telephone companies in calendar year 2010 were levied after October 1, 2009, on the value as of December 31, 2009. Amounts 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.

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, 2010, are available to finance fiscal year 2010 operations. The amount available to be advanced can vary based on the date the tax bills are sent.

Accrued property taxes receivable includes real property, public utility property and tangible personal property taxes which are measurable as of June 30, 2010 and for which there is an enforceable legal claim. Although total property tax collections for the next fiscal year are measurable, only the amount of real property taxes available as an advance at June 30 and the late personal property tax settlement were levied to finance current fiscal year operations and are reported as revenue at fiscal year-end. The portion of the receivable not levied to finance current fiscal year operations is offset by a credit to deferred revenue.

The amount available as an advance at June 30, 2010, was \$1,113,410 in the general fund, \$114,518 in the general obligation bond retirement debt service fund and \$14,217 in the classroom facilities maintenance capital projects fund. The amount available as an advance June 30, 2009, was \$1,298,460 in the general fund, \$73,579 in the bond retirement debt service fund, \$70,694 and in the classroom facilities maintenance capital projects fund. The difference was in the timing and collection by the County Auditor.

The last tax settlement made by the County for fiscal year 2010 was \$3,362 in the general fund, \$138 in the bond retirement fund debt service fund and \$19 in the classroom facilities maintenance capital projects fund. On a full accrual basis, collectible delinquent property taxes have been recorded as a receivable and revenue, while on a modified accrual basis the revenue has been deferred.

East Cleveland City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2010

The assessed values upon which the fiscal year 2010 taxes were collected are:

	2009 Second Half Collections		2010 First Half Collections	
	Amount	Percent	Amount	Percent
Real Estate				
Residential/Agricultural	\$198,552,460	70.14 %	\$175,896,600	73.69 %
Other Real Estate	68,248,390	24.11	53,628,110	22.47
Tangible Personal Property				
Public Utility	8,762,220	3.09	9,177,410	3.84
General	7,517,550	2.66	0	0.00
Total	\$283,080,620	100.00 %	\$238,702,120	100.00 %
Tax rate per \$1,000 of assessed valuation		\$92.10		\$92.50

Since bond levies are passed based on the dollar amount of the bond issue, the tax rate will increase or decrease based on increases or decreases in the debt payment for principal and interest. The County Auditor extrapolates the tax rate based on the debt payment information.

Note 9 - Contingencies

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, 2010.

Litigation

The School District is a 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.

East Cleveland City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2010

Note 10 - Capital Assets

Capital asset activity for the fiscal year ended June 30, 2010, was as follows:

	Balance 6/30/09	Additions	Deletions	Balance 6/30/10
Governmental Activities				
<i>Capital Assets, not being depreciated:</i>				
Land	\$2,389,900	\$0	\$0	\$2,389,900
<i>Capital Assets, being depreciated:</i>				
Land Improvements	2,404,690	0	0	2,404,690
Buildings and Improvements	95,510,557	456,153	0	95,966,710
Furniture and Equipment	5,652,737	605,948	0	6,258,685
Vehicles	481,048	0	0	481,048
Textbooks	725,305	0	0	725,305
<i>Total Capital Assets, being Depreciated</i>	<u>104,774,337</u>	<u>1,062,101</u>	<u>0</u>	<u>105,836,438</u>
Less Accumulated Depreciation:				
Land Improvements	(584,990)	(122,743)	0	(707,733)
Buildings and Improvements	(14,889,297)	(2,322,489)	0	(17,211,786)
Furniture and Equipment	(3,273,528)	(542,938)	0	(3,816,466)
Vehicles	(384,380)	(24,193)	0	(408,573)
Textbooks	(326,387)	(93,253)	0	(419,640)
<i>Total Accumulated Depreciation</i>	<u>(19,458,582)</u>	<u>(3,105,616) *</u>	<u>0</u>	<u>(22,564,198)</u>
<i>Total Capital Assets, being Depreciated, Net</i>	<u>85,315,755</u>	<u>(2,043,515)</u>	<u>0</u>	<u>83,272,240</u>
<i>Governmental Activities Capital Assets, Net</i>	<u>\$87,705,655</u>	<u>(\$2,043,515)</u>	<u>\$0</u>	<u>\$85,662,140</u>

* Depreciation expense was charged to governmental functions as follow:

Instruction:	
Regular	\$1,255,570
Special	467,804
Vocational	107,254
Support Services:	
Pupil	123,619
Instructional Staff	108,862
Administration	213,193
Fiscal	96,982
Business	20,606
Operation and Maintenance of Plant	297,296
Pupil Transportation	91,551
Central	164,564
Operation of Non-Instructional Services:	
Food Service Operations	142,324
Extracurricular Activities	15,991
<i>Total Depreciation Expense</i>	<u>\$3,105,616</u>

East Cleveland City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2010

Note 11 - Interfund Transactions

Transfers

During fiscal year 2010, the School District made the following transfers:

Transfers In	Transfers Out General Fund
Major Fund	
Title I	\$100,000
Non-Major Funds	
Food Services	8,724
Other Grants	280
District Managed Activities	220,000
Miscellaneous State Grants	3,000
<i>Total Governmental Activities</i>	<i>\$332,004</i>

The transfers from the general fund are to move unrestricted balances to support programs and projects accounted for in other funds.

Balances

During fiscal year 2010, the School District advanced money from the general fund to the special revenue funds in the amount of \$6,402,548 to support the funds programs pending the receipts of grant money. \$12,505 was also advanced between special revenue funds pending the receipts of grant money. In addition, special revenue funds advanced \$7,362 to the general fund to repay prior year advances.

The interfund payables are advances for grant monies that were not received by fiscal year-end. The School District expects to receive the grant monies and repay the advances within the next fiscal year.

Note 12 - Risk Management

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 2010, the School District contracted with Indiana/Liberty Mutual Insurance Company for property insurance of \$119,109,920, fleet insurance of \$1,000,000 and liability coverage of \$5,000,000 with a \$5,000 deductible.

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

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

East Cleveland City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2010

Workers' Compensation

For fiscal year 2010, the School District participated in the Ohio School Boards' Association Workers' Compensation Group Rating Program (GRP), an insurance purchasing pool (Note 16). The intent of the GRP is to achieve the benefit of a reduced premium for the School District by virtue of its grouping and representation with other participants in the GRP. The workers' compensation experience of the participating school districts is calculated as one experience and a common premium rate is applied to all school districts in the GRP. Each participant pays its workers' compensation premium to the State based on the rate for the GRP rather than its individual rate. Participation in the GRP is limited to school districts that can meet the GRP's selection criteria. The firm of Gates McDonald and Co. provides administrative, cost control, and actuarial services to the GRP.

Employee Benefits

The School District has contracted with Anthem and Kaiser to provide employee medical, surgical, prescription drug and dental benefits. The School District pays \$2,139 for family coverage, \$1,523 for single plus one coverage and \$762 for single coverage per month for those employees electing Anthem. The School District pays \$1,416 for family coverage, \$934 for single plus one coverage and \$452 for single coverage per month for those employees electing Kaiser. The employees pay fifteen percent of the premium through a payroll deduction.

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 Fort Dearborn Life Insurance Company.

Note 13 - Compensated Absences

The criteria for determining vacation and sick leave benefits is derived from negotiated agreements and State laws. Classified employees earn ten to twenty days of vacation per year, depending upon length of service and hours worked. Accumulated unused vacation time is paid to classified employees upon termination of employment. Teachers do not earn vacation time. Each employee earns sick leave at a rate of one and one-fourth days per month. Sick leave may be accumulated to a maximum of 365 days (certificated employees and administrators) and 305 days (non-certificated employees). Upon retirement after 25 years of service, payment is made equal to 35 percent of the accumulated and unused sick leave days for non-certificated employees. Certificated employees who submit their retirement in writing on or before March 31, to be effective the last day of the school year and who were employed prior to July 1, 2002, receive payment equal to 50 percent of their accumulated and unused sick leave days. Certificated employees who submit their retirement in writing on or before March 31, to be effective the last day of the school year and who were employed on or after July 1, 2002, receive payment equal to 35 percent of their accumulated and unused sick leave days. Retirements announced for certificated employees after March 31, receive payment equal to 25 percent of their accumulated and unused sick leave days. For purposes of retirement, the employee receiving such payment must meet the eligibility requirement provisions set by STRS or SERS.

Note 14 - Defined Benefit Pension Plans

School Employees Retirement System

Plan Description - The School District contributes to the School Employees Retirement System (SERS), a cost-sharing multiple employer 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 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 the School Employees Retirement System, 300 East Broad Street, Suite 100, Columbus, Ohio 43215-3746. It is also posted on the SERS' Ohio website at www.ohsers.org under Employers/Audit Resources.

Funding Policy - 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 School District rate is 14 percent of annual covered payroll. A portion of the School District's contribution is used to fund pension obligations with the remainder being used to fund health care benefits. For fiscal year 2010, 12.78 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 by the SERS' Retirement Board up to a statutory maximum amount of 10 percent for plan members and 14 percent for employers. Chapter 3309 of the Ohio Revised Code provides statutory authority for member and employer contributions. The School District's required contributions for pension obligations to SERS for the fiscal years ended June 30, 2010, 2009 and 2008 were \$803,245, \$539,489, and \$533,123, respectively; 99.21 percent has been contributed for fiscal year 2010 and 100 percent for fiscal years 2009 and 2008.

State Teachers Retirement System

Plan Description - The School District participates in the State Teachers Retirement System of Ohio (STRS Ohio), a cost-sharing, multiple employer public employee retirement plan. STRS Ohio provides retirement and disability benefits to members and death and survivor benefits to beneficiaries. STRS Ohio issues a stand-alone financial report that may be obtained by writing to STRS Ohio, 275 E. Broad St., Columbus, OH 43215-3771, by calling (888) 227-7877, or by visiting the STRS Ohio Web site at www.strsoh.org.

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 a member's lifetime contributions and earned interest matched by STRS Ohio funds divided by an actuarially determined annuity factor. The DC Plan allows members to place all their member contributions and employer contributions equal to 10.5 percent of earned compensation into an investment account. Investment decisions are made by the member. A member is eligible to receive a retirement benefit at age 50 and termination of employment. The member may elect to receive a lifetime monthly annuity or a lump sum withdrawal. 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. The DB portion of the Combined Plan payment is payable to a member on or after age 60; the DC portion of the account may be taken as a lump sum or converted to a lifetime monthly annuity at age 50. Benefits are established by Chapter 3307 of the Ohio Revised Code.

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

East Cleveland City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2010

Funding Policy - For the fiscal year ended June 30, 2010, plan members were required to contribute 10 percent of their annual covered salaries. The School District was required to contribute 14 percent; 13 percent was the portion used to fund pension obligations. For fiscal year 2009, the portion used to fund pension obligations was also 13 percent. Contribution rates are established by the State Teachers Retirement Board, upon recommendations of its consulting actuary, not to exceed statutory maximum rates of 10 percent for members and 14 percent for employers. Chapter 3307 of the Ohio Revised Code provides statutory authority for member and employer contributions.

The School District's required contributions for pension obligations to STRS Ohio for the fiscal years ended June 30, 2010, 2009, and 2008 were \$2,521,597, \$2,783,794, and \$2,819,733, respectively; 98.53 percent has been contributed for fiscal year 2010 and 100 percent for fiscal years 2009 and 2008. Contributions to the DC and Combined Plans for fiscal year 2010 were \$110,186 made by the School District and \$78,704 made by the plan members.

Note 15 - Postemployment Benefits

School Employee Retirement System

Plan Description – The School District participates in two cost-sharing multiple employer defined benefit OPEB plans administered by the School Employees Retirement System for non-certificated retirees and their beneficiaries, a Health Care Plan and a Medicare Part B Plan. The Health Care Plan includes hospitalization and physicians' fees through several types of plans including HMO's, PPO's and traditional indemnity plans as well as a prescription drug program. The Medicare Part B Plan reimburses Medicare Part B premiums paid by eligible retirees and beneficiaries up to a statutory limit. Benefit provisions and the obligations to contribute are established by the System based on authority granted by State statute. The financial reports of both Plans are included in the SERS Comprehensive Annual Financial Report which is available by contacting SERS at 300 East Broad St., Suite 100, Columbus, Ohio 43215-3746. It is also posted on the SERS' Ohio website at www.ohsers.org under Employers/Audit Resources.

Funding Policy – State statute permits SERS to fund the health care benefits through employer contributions. Each year, after the allocation for statutorily required benefits, the Retirement Board allocates the remainder of the employer contribution of 14 percent of covered payroll to the Health Care Fund. The Health Care Fund was established and is administered in accordance with Internal Revenue Code Section 401h. For 2010, 0.46 percent of covered payroll was allocated to health care. In addition, employers pay a surcharge for employees earning less than an actuarially determined amount. For 2010, the actuarially determined amount was \$35,800 and the surcharge paid by the School District was \$94,278.

Active employee members do not contribute to the Health Care Plan. Retirees and their beneficiaries are required to pay a health care premium that varies depending on the plan selected, the number of qualified years of service, Medicare eligibility and retirement status.

The School District's contributions for health care for the fiscal years ended June 30, 2010, 2009, and 2008 were \$123,190, \$336,445, and \$331,070, respectively; 99.21 percent has been contributed for fiscal year 2010 and 100 percent for fiscal years 2009 and 2008.

The Retirement Board, acting with advice of the actuary, allocates a portion of the employer contribution to the Medicare B Fund. For the year ended June 30, 2010, this actuarially required allocation was 0.76 percent of covered payroll. The School District's contributions for Medicare Part B for the fiscal years ended June 30, 2010, 2009, and 2008 were \$47,767, \$44,512, and \$38,413, respectively; 99.21 percent has been contributed for fiscal year 2010 and 100 percent for fiscal years 2009 and 2008.

East Cleveland City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2010

State Teachers Retirement System

Plan Description – The School District contributes to the cost sharing multiple employer defined benefit Health Plan administered by the State Teachers Retirement System of Ohio (STRS Ohio) for eligible retirees who participated in the defined benefit or combined pension plans offered by STRS Ohio. Benefits include hospitalization, physicians' fees, prescription drugs and reimbursement of monthly Medicare Part B premiums. The Plan is included in the report of STRS Ohio which may be obtained by visiting www.strsoh.org or by calling (888) 227-7877.

Funding Policy – Ohio law authorizes STRS Ohio to offer the Plan and gives the Retirement Board authority over how much, if any, of the health care costs will be absorbed by STRS Ohio. Active employee members do not contribute to the Plan. All benefit recipients pay a monthly premium. Under Ohio law, funding for post-employment health care may be deducted from employer contributions. For 2010, STRS Ohio allocated employer contributions equal to one percent of covered payroll to the Health Care Stabilization Fund. The School District's contributions for health care for the fiscal years ended June 30, 2010, 2009, and 2008 were \$193,969, \$214,138, and \$216,903, respectively; 98.53 percent has been contributed for fiscal year 2010 and 100 percent for fiscal years 2009 and 2008.

Note 16 – Public Entity Risk Pool

Insurance Purchasing Pool

The School District participates in the Ohio School Boards Association Workers' Compensation Group Rating Program (GRP), an insurance purchasing pool. The GRP'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 program. Each year, the participating school districts pay an enrollment fee to the GRP to cover the costs of administering the program.

Note 17 – 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. Financial information can be obtained from the East Cleveland Public Library, Mr. Curtis McLemore, Clerk/Treasurer, at 14101 Euclid Avenue, East Cleveland, Ohio 44112.

East Cleveland City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2010

Note 18 - Long Term Obligations

The original issue date, interest rate, original issue amount and date of maturity of each of the School District's long-term obligations follows:

Debt Issue	Original Issue Date	Original Issue Amount	Interest Rate	Date of Maturity
<i>General Obligation Bonds:</i>				
School Improvement Bonds - 1999				
Capital Appreciation Bonds	1999	\$664,716	4.45-4.65%	December 1, 2012
School Improvement Refunding Bonds	2007	5,645,000	4.00-5.50%	December 1, 2020

The changes in the School District's long-term obligations during the fiscal year consist of the following:

	Principal Outstanding 6/30/09	Additions	(Reductions)	Principal Outstanding 6/30/10	Amount Due in One Year
Governmental Activities:					
General Obligations Bonds:					
School Improvement Bonds - 1999					
Capital Appreciation Bonds	\$664,716	\$0	(\$234,098)	\$430,618	\$221,470
Accretion on Capital Appreciation Bonds	725,406	84,758	(280,902)	529,262	293,530
School Improvement Refunding - 2007					
Serial Bonds	5,645,000	0	0	5,645,000	0
Unamortized Premium	361,955	0	(31,704)	330,251	0
Unamortized Accounting Loss	(204,896)	0	17,947	(186,949)	0
<i>Total General Obligation Bonds</i>	<u>7,192,181</u>	<u>84,758</u>	<u>(528,757)</u>	<u>6,748,182</u>	<u>515,000</u>
Compensated Absences	6,692,451	(515,799)	(752,768)	5,423,884	1,289,498
Total Governmental Activities	<u><u>\$13,884,632</u></u>	<u><u>(\$431,041)</u></u>	<u><u>(\$1,281,525)</u></u>	<u><u>\$12,172,066</u></u>	<u><u>\$1,804,498</u></u>

The school improvement capital appreciation bonds were issued in 1999 and will be paid from property taxes. These bonds will be paid from the bond retirement fund. This year the addition on the capital appreciation bonds was \$84,758 which represents the annual accretion of discounted interest. The final maturity amount of the remaining capital appreciation bonds is \$1,030,000.

In August 2007, the School District issued school improvement refunding bonds having an original face value of \$5,645,000. The bonds were issued at a \$422,721 premium and issuance costs were \$138,463.

The refunding bonds were issued to defease the 1999 school improvement general obligation term bonds by placing the proceeds of the new bonds in an irrevocable trust to provide for all future debt service payments. Accordingly, the trust account assets and the liability for the defeased bonds are not included in the School District's financial statements. The refunded bonds have been completely paid as of June 30, 2010.

The overall debt margin of the School District as of June 30, 2010, was \$16,522,266 with an unvoted debt margin of \$236,843. Principal and interest requirements to retire general obligation bonds outstanding at June 30, 2010, are as follows:

East Cleveland City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2010

	General Obligation Bonds		Capital Appreciation Bonds	
	Principal	Interest	Principal	Interest
2011	\$0	\$270,750	\$221,470	\$293,530
2012	0	270,750	209,148	305,852
2013	525,000	260,250	0	0
2014	545,000	238,850	0	0
2015	570,000	216,550	0	0
2016-2020	3,250,000	656,025	0	0
2021-2025	755,000	20,762	0	0
Total	\$5,645,000	\$1,933,937	\$430,618	\$599,382

Note 19 - 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 fiscal year end or offset by similarly restricted resources received during the fiscal year must be held in cash at fiscal year end and carried forward to be used for the same purposes in future fiscal years.

The following cash basis information describes the change in the fiscal year end set aside amounts for textbooks and capital acquisition. Disclosure of this information is required by State statute.

	Textbooks Instructional Materials Reserve	Capital Improvement Reserve
Set-aside Reserve Balances as of June 30, 2009	(\$1,049,228)	(\$7,480,282)
Current Year Set-aside Requirement	588,189	588,189
Levy Proceeds Offsets	0	(76,142)
Qualifying Disbursements	(1,694,378)	(512,047)
Totals	(\$2,155,417)	(\$7,480,282)
Set-aside Balance Carried Forward to Future Fiscal Years	(\$2,155,417)	(\$7,480,282)
Set-aside Reserve Balances as of June 30, 2010	\$0	\$0

The School District had qualifying disbursements during the fiscal year that reduced the textbook set-aside amount below zero. Further, in a prior year(s), the School District had qualifying offsets that reduced the capital improvements se-aside amount below zero. These extra amounts may be used to reduce the set-aside requirements of future fiscal years.

Note 20 - Jointly Governed Organizations

Lakeshore Northeast Ohio Computer Association

The Lakeshore Northeast Ohio Computer Association (LNOCA) is a jointly governed computer service bureau owned and operated by sixteen public school districts. The primary function of LNOCA is to provide

East Cleveland City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2010

data services to the sixteen member districts. Major areas of service provided by LNOCA include accounting, payroll, inventory, career guidance services, handicapped student tracking, pupil scheduling, attendance reporting and grade reporting. Each school is represented on the LNOCA Board of Directors by its superintendent. Each year, the Board of Directors elects a Chairman, a Vice Chairman and a Recording Secretary. The Treasurer of the fiscal agent is a nonvoting, ex-officio member of the Board of Directors. The Cuyahoga County Educational Service Center serves as the fiscal agent of LNOCA. Each school district supports LNOCA based upon a per pupil charge dependent upon the software packages used. East Cleveland City School District paid \$91,015 to LNOCA during fiscal year 2010. Financial information can be obtained by contacting the Treasurer of the fiscal agent at 5811 West Canal Road, Valley View, Ohio 44125.

Ohio Schools' Council

The Ohio Schools Council (Council) is a jointly governed organization among 126 school districts. The jointly governed organization was created by school districts for the purpose of saving money through volume purchases. Each district supports the Council by paying an annual participation fee. Each school district member's superintendent serves as a representative of the Assembly. The Assembly elects five of the Council's Board members and the remaining four are representatives of the Greater Cleveland School Superintendents' Association. The Council operates under a nine-member Board of Directors (the Board). The Board is the policy making authority of the Council. The Board meets monthly September to June. The Board appoints an Executive Director who is responsible for receiving and disbursing funds, investing available funds, preparing financial reports for the Board and Assembly and carrying out such other responsibilities as designated by the Board. In fiscal year 2010, the School District paid \$1,258 to the Council. Financial information can be obtained by contacting Dr. David A. Cottrell, the Executive Director at the Ohio Schools Council at 6133 Rockside Road, Suite 10, Independence, Ohio 44131.

The School District participates in the natural gas purchase program. This program allows the School District to purchase natural gas at reduced rates. Energy USA served as the natural gas supplier and program manager from October 1, 2008 to September 30, 2010. Compass Energy has been selected as the new supplier and program manager for the period from October 1, 2010 through March 31, 2013. There are currently 143 participants in the program. The participants make monthly payments based on estimated usage. Each September, these estimated payments are compared to their actual usage for the year (July to June). Districts that paid more in estimated billings than their actual billings are issued credits on future billings in September until the credits are exhausted and districts that did not pay enough on estimated billings are invoiced for the difference on the September monthly estimated billing.

Note 21 - Operating Lease

In prior fiscal years, the School District entered into an operating lease with City Management Group, Limited, for the purpose of leasing a bus garage and warehouse to house the School District's buses and maintenance equipment. This is a cancelable lease that is renewed annually. The School District pays \$2,250 per month. For fiscal year 2010, the School District paid rental costs of \$27,000. The School District must provide the lessor written notice at least 90 days prior to termination of the lease.

**EAST CLEVELAND CITY SCHOOL DISTRICT
 CUYAHOGA COUNTY
 SCHEDULE OF FEDERAL AWARDS RECEIPTS AND EXPENDITURES
 FOR THE YEAR ENDED JUNE 30, 2010**

FEDERAL GRANTOR <i>Pass Through Grantor</i> Program Title	Federal CFDA Number	Receipts	Disbursements
UNITED STATES DEPARTMENT OF AGRICULTURE			
<i>Passed Through Ohio Department of Education:</i>			
Child Nutrition Cluster:			
Non-Cash Assistance (Food Distribution):			
National School Lunch Program	10.555	\$81,478	\$81,478
Cash Assistance:			
National School Lunch Program	10.555	1,075,897	1,075,897
School Breakfast Program	10.553	322,111	322,111
Summer Food Service Program for Children	10.559	30,746	30,746
Cash Assistance Subtotal		<u>1,428,754</u>	<u>1,428,754</u>
Total Child Nutrition Cluster		<u>1,510,232</u>	<u>1,510,232</u>
ARRA - Child Nutrition Discretionary Grants Limited Availability	10.579	24,594	28,956
Fresh Fruit and Vegetable Program	10.582	45,769	45,769
Total U.S. Department of Agriculture		<u>1,580,595</u>	<u>1,584,957</u>
U.S. DEPARTMENT OF DEFENSE			
<i>Direct Assistance:</i>			
Junior ROTC	12.000	28,249	28,249
Total U.S. Department of Defense		<u>28,249</u>	<u>28,249</u>
U. S. DEPARTMENT OF EDUCATION			
<i>Passed Through Ohio Department of Education:</i>			
Advanced Placement Program	84.330	2,688	1,209
Comprehensive School Reform Demonstration	84.332	0	7,367
Adult Education - Basic Grants to State	84.002	0	28,146
Title I, Part A Cluster:			
Title I Grants to Local Educational Agencies	84.010	3,214,120	4,245,655
ARRA - Title I Grants to Local Educational Agencies, Recovery Act	84.389	548,574	861,372
Total Title I, Part A Cluster		<u>3,762,694</u>	<u>5,107,027</u>
Special Education Cluster:			
Special Education Grants to States	84.027	778,554	756,496
ARRA - Special Education Grants to States, Recovery Act	84.391	522,416	504,284
Special Education - Preschool Grants	84.173	27,699	35,653
ARRA - Special Education - Preschool Grants, Recovery Act	84.392	0	33,564
Total Special Education Cluster		<u>1,328,669</u>	<u>1,329,997</u>
Career and Technical Education - Basic Grants to States	84.048	221,982	251,534

See the accompanying notes to this Schedule

**EAST CLEVELAND CITY SCHOOL DISTRICT
 CUYAHOGA COUNTY
 SCHEDULE OF FEDERAL AWARDS RECEIPTS AND EXPENDITURES
 FOR THE YEAR ENDED JUNE 30, 2010**

FEDERAL GRANTOR <i>Pass Through Grantor</i> Program Title	Federal CFDA Number	Receipts	Disbursements
U. S. DEPARTMENT OF EDUCATION (Continued)			
<i>Passed Through Ohio Department of Education: (Continued)</i>			
Safe and Drug-Free Schools and Communities - State Grants	84.186	77,211	87,485
State Grants for Innovative Programs	84.298	1,175	6,334
Education Technology State Grants	84.318	36,547	43,847
Reading First State Grants	84.357	905,287	962,304
Improving Teacher Quality State Grants	84.367	533,525	887,780
Javitis Gifted and Talented Students Education Grant Program	84.206	3,000	3,000
ARRA - State Fiscal Stabilization Fund (SFSF) - Education State Grants, Recovery Act	84.394	2,000,676	2,245,881
Total Pass Through Ohio Department of Education		<u>8,873,454</u>	<u>10,961,911</u>
Total U.S. Department of Education		<u>8,873,454</u>	<u>10,961,911</u>
U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES			
<i>Passed Through Ohio Department of Job and Family Services:</i>			
Temporary Aid for Needy Families - Closing the Achievement Gap	93.558	97,219	777
<i>Passed Through Ohio Department of Mental Retardation and Development Disabilities:</i>			
Medicaid Assistance Program (CAFS)	93.778	98,477	0
Total U.S. Department of Health and Human Services		<u>195,696</u>	<u>777</u>
Total Federal Assistance		<u>\$10,677,994</u>	<u>\$12,575,894</u>

See the accompanying notes to 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, 2010**

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.

CFDA – Catalog of Federal Domestic Assistance

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Dave Yost • 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, 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, 2010, which collectively comprise the District's basic financial statements and have issued our report thereon dated May 6, 2011. 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.

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 combination of internal control deficiencies resulting in more than a reasonable possibility that a material misstatement of the District's financial statements will not be prevented, or detected and timely corrected.

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

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 no instances of noncompliance or other matters we must report under *Government Auditing Standards*.

We noted certain matters not requiring inclusion in this report that we reported to the District's management in a separate letter dated May 6, 2011.

We intend this report solely for the information and use of management, the Board of Education, audit committee, and federal awarding agencies and pass-through entities, and others within the District. We intend it for no one other than these specified parties.

A handwritten signature in black ink that reads "Dave Yost". The signature is written in a cursive, flowing style.

Dave Yost
Auditor of State

May 6, 2011



Dave Yost • Auditor of State

INDEPENDENT ACCOUNTANTS' REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR FEDERAL PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY 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 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 could directly and materially affect each of the District's major federal programs for the year ended June 30, 2010. The summary of auditor's results section of the accompanying schedule of findings and questioned costs 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.

As described in findings 2010-01 through 2010-03 in the accompanying schedule of findings and questioned costs, the District did not comply with requirements regarding activities allowed or unallowed and allowable costs/cost principles applicable to its ARRA - State Fiscal Stabilization Fund and Special Education Cluster major federal programs. Compliance with these requirements is necessary, in our opinion, for the District to comply with requirements applicable to these programs.

In our opinion, except for the noncompliance described in the preceding paragraph, the East Cleveland City School District complied, in all material respects, with the requirements referred to above that could directly and materially affect each of its major federal programs for the year ended June 30, 2010.

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 the requirements that could directly and materially affect a major federal program, to determine our auditing procedures for the purpose of expressing our opinion on compliance, and to test and report on internal control over compliance in accordance with OMB Circular A-133, 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 was not designed to 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. However, we identified certain deficiencies in internal control over compliance that we consider to be significant deficiencies, described in the accompanying schedule of findings and questioned costs as items 2010-01 through 2010-03. A *significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a federal program compliance requirement that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

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

We also noted a matter 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 May 6, 2011.

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



Dave Yost
Auditor of State

May 6, 2011

**EAST CLEVELAND CITY SCHOOL DISTRICT
 CUYAHOGA COUNTY
 SCHEDULE OF FINDINGS AND QUESTIONED COSTS
 OMB CIRCULAR A -133 § .505
 FOR THE FISCAL YEAR ENDED JUNE 30, 2010**

1. SUMMARY OF AUDITOR'S RESULTS
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(d)(1)(i)	Type of Financial Statement Opinion	Unqualified
(d)(1)(ii)	Were there any material control weaknesses reported at the financial statement level (GAGAS)?	No
(d)(1)(ii)	Were there any significant deficiencies in internal control reported at the financial statement level (GAGAS)?	No
(d)(1)(iii)	Was there any reported material noncompliance at the financial statement level (GAGAS)?	No
(d)(1)(iv)	Were there any material internal control weaknesses reported for major federal programs?	No
(d)(1)(iv)	Were there any significant deficiencies in internal control reported for major federal programs?	Yes
(d)(1)(v)	Type of Major Programs' Compliance Opinion?	Unqualified for all major programs except for the Special Education Cluster and State Fiscal Stabilization Fund federal programs which were qualified
(d)(1)(vi)	Are there any reportable findings under § .510(a)?	No
(d)(1)(vii)	Major Programs (list):	Special Education Cluster: CFDA # 84.027 - Special Education Grants to States CFDA # 84.173 - Special Education Preschool Grants CFDA # 84.391 - ARRA - Special Education Grants to States, Recovery Act CFDA # 84.392 - ARRA -Special Education Preschool Grants, Recovery Act CFDA # 84.394 - ARRA - State Fiscal Stabilization Fund – Education State Grants, Recovery Act CFDA # 84.010 - Title I Grants to Local Educational Agencies CFDA # 84.389 - ARRA -Title I Grants to Local Educational Agencies, Recovery Act CFDA # 84.367 - Improving Teacher Quality State Grants

**EAST CLEVELAND CITY SCHOOL DISTRICT
 CUYAHOGA COUNTY
 SCHEDULE OF FINDINGS AND QUESTIONED COSTS
 OMB CIRCULAR A -133 § .505
 FOR THE FISCAL YEAR ENDED JUNE 30, 2010**

1. SUMMARY OF AUDITOR'S RESULTS

(Continued)

(d)(1)(viii)	Dollar Threshold: Type A\B Programs	Type A: > \$ 300,000 Type B: all others
(d)(1)(ix)	Low Risk Auditee?	No

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

None

3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS

Finding Number	2010-01
CFDA Title and Number	ARRA - State Fiscal Stabilization Fund – Education State Grants, Recovery Act - CFDA # 84.394
Year	2010
Federal Agency	U.S. Department of Education
Pass-Through Agency	Ohio Department of Education

Significant Deficiency and Material Noncompliance Finding and Questioned Cost

2 CFR Part 225, Appendix A, Part (C)(1)(c) (formerly A-87) states that in order for a Federal program cost to be allowable, it must be authorized or not prohibited under State or local laws or regulations.

Ohio Rev. Code Section 3313.24 states the Treasurer's salary must be paid from the general fund of the district.

While scanning the expenditure ledgers, we noted a portion of the Treasurer's salary and benefits were charged to the ARRA State Fiscal Stabilization Fund. The salary and benefits charged was \$25,374 and \$8,095 for a total of \$33,469. Since the Treasurer must be paid from the general fund this expenditure is not allowable. Adequate internal controls to help assure this money was spent only for allowable purposes were not in place.

Based on these facts, a questioned cost totaling \$33,469 is issued.

We recommend the Treasurer's salary be paid from the general fund. The District should establish and maintain internal control designed to reasonably ensure compliance with Federal laws, regulations, and program compliance requirements, including internal control designed to ensure compliance with ARRA requirements.

District's Response

We reversed the Treasurer's salary and benefits charged to this federal grant fund and provided the Auditor of State with the support documentation confirming this fact.

**EAST CLEVELAND CITY SCHOOL DISTRICT
 CUYAHOGA COUNTY
 SCHEDULE OF FINDINGS AND QUESTIONED COSTS
 OMB CIRCULAR A -133 § .505
 FOR THE FISCAL YEAR ENDED JUNE 30, 2010
 (Continued)**

3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS (Continued)
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Finding Number	2010-02
CFDA Title and Number	ARRA - State Fiscal Stabilization Fund – Education State Grants, Recovery Act - CFDA # 84.394
Year	2010
Federal Agency	U.S. Department of Education
Pass-Through Agency	Ohio Department of Education

Significant Deficiency and Material Noncompliance Finding and Questioned Cost

2 CFR Part 225, Appendix B, paragraph 19(a)(1) (formerly A-87) states that the general costs of government are unallowable – these include salaries and expenses of thechief executive of a political subdivision.

While scanning the expenditure ledgers, we noted a portion of the Superintendent’s salary and benefits were charged to the State Fiscal Stabilization Fund. The salary and benefits charged was \$33,753 and \$9,703 for a total of \$43,456. Since the Superintendent is considered the chief executive officer, her salary cannot be charged to a federal grant. Adequate internal controls to help assure this money was spent only for allowable purposes were not in place.

Based on these facts, a questioned cost totaling \$43,456 is issued.

We recommend the Superintendent’s salary be paid from a fund which does not include federal monies. The District should establish and maintain internal control designed to reasonably ensure compliance with Federal laws, regulations, and program compliance requirements, including internal control designed to ensure compliance with ARRA requirements.

District’s Response

We reversed the Superintendent’s salary and benefits charged to this federal grant fund and provided the Auditor of State with the support documentation confirming this fact.

**EAST CLEVELAND CITY SCHOOL DISTRICT
 CUYAHOGA COUNTY
 SCHEDULE OF FINDINGS AND QUESTIONED COSTS
 OMB CIRCULAR A -133 § .505
 FOR THE FISCAL YEAR ENDED JUNE 30, 2010
 (Continued)**

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

Finding Number	2010-03
CFDA Title and Number	Special Education Cluster: Special Education Grants to States - CFDA # 84.027 Special Education - Preschool Grants - CFDA # 84.173 ARRA - Special Education Grants to States, Recovery Act CFDA # 84.391 ARRA - Special Education Preschool Grants, Recovery Act CFDA # 84.392
Year	2010
Federal Agency	U.S. Department of Education
Pass-Through Agency	Ohio Department of Education

Significant Deficiency and Material Noncompliance Finding and Questioned Cost

For a cost to be allowable, it must be for a purpose the specific award permits and fall within A-87's (codified in 2 CFR Part 225) allowable cost guidelines.

During a review of Special Education Cluster grant expenditures, we noted the State of Ohio - Department of Mental Health submitted an invoice for \$8,028 to the District for an overpayment in Medicaid benefits for the period July 1, 2000 through December 31, 2003.

Since the overpayment in Medicaid benefits was originally posted to the District's General Fund the remittance should be from the same fund. However, the District remitted the monies from the Special Education Cluster grant fund. As a result, the remittance is not an allowable cost.

Based on these facts, a questioned cost totaling \$8,028 is issued.

We recommend that management monitor grant expenditures and ensure they are being paid from the proper federal grant fund.

District's Response

The District made an adjustment and charged this reimbursement to the General Fund instead of the Special Education Cluster grant fund and provided the Auditor of State with the support documentation confirming this fact.

**EAST CLEVELAND CITY SCHOOL DISTRICT
 CUYAHOGA COUNTY
 SCHEDULE OF PRIOR AUDIT FINDINGS
 OMB CIRCULAR A-133 § .505
 FOR THE FISCAL YEAR ENDED JUNE 30, 2010**

Finding Number	Finding Summary	Fully Corrected?	Not corrected, partially corrected, different corrective action taken; finding no longer valid; Explain
2009-01	Teacher was overpaid for unused sick leave upon retirement.	Yes	

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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
MAY 24, 2011**