



Dave Yost • Auditor of State

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

Fiscal Emergency Termination

Local Government Services Section

**East Cleveland City School District
Cuyahoga County**

Fiscal Emergency Termination

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CERTIFICATION

Pursuant to a request submitted to the Auditor of State by the East Cleveland City School District Financial Planning and Supervision Commission, the Auditor of State performed an analysis of the East Cleveland City School District to determine whether the Commission and its functions under Chapter 3316 of the Ohio Revised Code should be terminated. Based on our analysis, the Auditor of State certifies that the East Cleveland City School District no longer meets the fiscal emergency conditions set forth in Section 3316.03(B), Revised Code, that the objectives of the financial recovery plan are being met, that an effective financial accounting and reporting system in accordance with Section 3316.10 of the Revised Code has been implemented, that the Board of Education has prepared a financial forecast for a five-year period in accordance with the standards issued by the Auditor of State and an opinion has been rendered by the Auditor of State that the financial forecast is considered to be nonadverse. Therefore, the existence of the East Cleveland City School District Financial Planning and Supervision Commission and its role in the operation of the East Cleveland City School District is terminated as of May 24, 2011.

Accordingly, this report is hereby submitted to the East Cleveland City School District Board of Education, the Financial Planning and Supervision Commission, John Kasich, Governor, Timothy S. Keen, Director of the Office of Budget and Management, Gary Norton, Jr., Mayor of the City of East Cleveland, and Stan W. Heffner, Interim State Superintendent of Public Instruction.

A handwritten signature in black ink that reads "Dave Yost".

DAVE YOST
Auditor of State

May 24, 2011

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East Cleveland City School District – Cuyahoga County

Report on Termination of the East Cleveland City School District Financial Planning and Supervision Commission

At the request of the Financial Planning and Supervision Commission of the East Cleveland City School District (the Commission), Cuyahoga County, Ohio, as provided by Section 3316.16(B) of the Ohio Revised Code, the Auditor of State has performed an analysis to determine whether this Commission and its functions under Chapter 3316 of the Ohio Revised Code should be terminated.

The Declaration of Fiscal Emergency

Effective June 15, 2001, the Department of Education declared the East Cleveland City School District (the School District) to be in a state of Fiscal Caution in accordance with Section 3316.031 of the Ohio Revised Code. The declaration was based on unauditable financial records for fiscal year ending June 30, 2000.

On March 12, 2003, the Auditor of State certified an operating deficit in the amount of \$7,698,000 for the fiscal year ending June 30, 2003 for the East Cleveland City School District. The Auditor of State declared the School District in Fiscal Emergency on March 12, 2003 since the School District adopted a resolution dated November 18, 2002, requesting that the Auditor of State perform an examination of the financial forecast of the general fund of the School District. The state of Fiscal Emergency was declared under Section 3316.03(B)(2) of the Ohio Revised Code and a Financial Planning and Supervision Commission was created whose purpose is to direct the School District's return to financial stability.

Termination of Fiscal Emergency

Under Section 3316.16 of the Ohio Revised Code, a school district financial planning and supervision commission, once established, will continue in existence until the Auditor of State, or the commission itself, determines the following:

1. An effective financial accounting and reporting system is in the process of being implemented, and is expected to be completed within two years;
2. All of the fiscal emergency conditions have been corrected or eliminated, and no new emergency conditions have occurred;
3. The objectives of the financial recovery plan are being met; and,
4. The school district has prepared a financial forecast for a five-year period in accordance with standards issued by the Auditor of State, and such forecast is, in the Auditor's opinion, "nonadverse".

The results of the analysis performed by the Auditor of State to determine if each of these four conditions has been satisfied follows.

Section 1 - Financial Accounting and Reporting System

When a school district is placed in fiscal emergency, the Auditor of State is required to report on the effectiveness of the school district's financial accounting and reporting system. The Auditor of State, in accordance with Section 3316.10(A), Revised Code, assessed the methods, accuracy, and legality of the accounts, records, files, and reports of the East Cleveland City School District and issued a Report on Accounting Methods, dated July 21, 2003. The report identified areas where the School District's financial accounting and reporting system was not in compliance with Section 117.43, Revised Code, and the requirements of the Auditor of State.

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The criteria for termination of the Commission include a determination by the Auditor of State that an effective financial accounting and reporting system has been implemented, or is in the process of implementation and is expected to be completed within two years. This determination is based on management providing a summary of the actions taken to address the issues identified in the Financial Accounting Report. We confirmed whether the actions taken by management were sufficient to correct those issues identified in the Financial Accounting Report. A summary of each area of noncompliance identified in the Report on Accounting Methods and the status of each corrective action is presented below:

Governance

Auditor of State Comment from Report on Accounting Methods:

- The Commission has not yet fully defined the level of fiscal management and control that the Commission will exercise within the School District during the period of fiscal emergency as required under Section 3316.06 (A)(2) of the Ohio Revised Code. The complete role of the Commission and the School Board are to be addressed in the financial recovery plan. The financial recovery plan is due August 4, 2003.

Implemented:

The Commission has chosen not to assume any additional powers since the adoption of the initial financial recovery plan on July 29, 2003. The financial recovery plan was last updated May 25, 2010.

Budgetary Process

Auditor of State Comment from Report on Accounting Methods:

- The School District certified the fiscal year-end 2002 balances to the budget commission in September 2002. The Cuyahoga County Budget Commission has requested the Certificate of the Total Amount from All Sources Available for Expenditures and Balances be submitted within 15 days after the end of the fiscal year.

Implemented:

The School District submits the Certificate of the Total Amount from All Sources Available for Expenditures and Balances within the 15 day deadline set by the Cuyahoga County Budget Commission.

Auditor of State Comment from Report on Accounting Methods:

- The legal level of control, the level at which spending in excess of the budgeted amounts is a violation of law, should be established in the first appropriation measure adopted by the Board. Supplemental appropriation measures should be consistent with this level throughout the year. The Board of Education should define the legal level of control, by board policy. The policy should also require management to explain and justify why amendments to existing appropriations are needed.

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Implemented:

The Board of Education has amended its policy to establish the legal level of control for appropriations for all funds to be the fund level. The policy also requires an explanation and justification of all amendments to the Board.

Auditor of State Comment from Report on Accounting Methods:

- Expenditures plus encumbrances are not to exceed appropriations; however, management allows this to occur at the legal level of control and in the various accounts that receive allocations by the treasurer. The allocation of Board approved appropriations is at the discretion of the Treasurer. There is no Board policy identifying, establishing, or requiring the establishment of controls over this process. The Board should consider adopting appropriations at the fund, function, and major object level.

Implemented:

Expenditures plus encumbrances did not exceed appropriations at June 30, 2009 or 2010.

Auditor of State Comment from Report on Accounting Methods:

- The Treasurer should submit, on a timely basis, any supplemental appropriation measure to the county budget commission. By statute, an appropriation measure is not effective until the county auditor files with the appropriating authority and the superintendent of public instruction, a certificate that the total appropriations from each fund, taken together with all other outstanding appropriations, do not exceed the official estimate or amended official estimate. Spending prior to the effective date of an appropriation is a violation of law.

Implemented:

Supplemental appropriations are now being submitted to the County Fiscal Officer in a timely manner. Usually within a few days of appropriations being passed by the Board, the Treasurer submits the supplemental appropriations resolution to the County Fiscal Officer along with a 412 certificate signed by the Board President, Superintendent and the Treasurer. All temporary and permanent appropriations have a County Fiscal Officer certificate that the total appropriations from each fund, taken together with all other outstanding appropriations, do not exceed the official estimate or amended official estimate.

Auditor of State Comment from Report on Accounting Methods:

- The Board has adopted appropriations in funds that do not appear on the amended certificate. As part of the budgetary process, fund appropriations should be compared to the estimated resources on the amended official certificate.

Implemented:

The Board no longer adopts appropriations in funds that are not on the amended certificate of estimated resources. Appropriations are adopted only for funds on the amended certificate of estimated resources. All appropriation resolutions are compared to the amended certificate in place when the appropriations are passed to verify that all funds on the appropriation resolution are on the amended certificate.

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Auditor of State Comment from Report on Accounting Methods:

- By statute, appropriations are limited to the estimated resources in the existing amended official certificate of estimated resources. The School District routinely adopts supplemental appropriation measures and then requests an amended official certificate that equals the new appropriation amounts. If new or additional revenue is anticipated and the Board desires to spend it, an amended certificate should be requested before the appropriations are passed.

Implemented:

The Treasurer now requests an amended certificate before asking the Board to pass appropriations if new or additional revenue is anticipated and the Board desires to spend it.

Auditor of State Comment from Report on Accounting Methods:

- The Treasurer should request a reduced amended certificate from the county budget commission when it is determined the actual revenues will be less than the amount included in the current amended official certificate. Corresponding reductions to appropriations should be made if necessary to limit appropriations to amended certificate amounts.

Implemented:

The Treasurer now, after determining that the actual revenues will be less than the amount included in the current amended official certificate, requests a reduced amended certificate before passing appropriations. If necessary, a corresponding decrease would be made to the appropriations resolution.

Auditor of State Comment from Report on Accounting Methods:

- Documents received from the county budget commission do not always agree with information submitted by the School District. The documents received from the county budget commission should be reviewed upon receipt and corrections requested if needed.

Implemented:

Documents from the County Fiscal Officer's office are reviewed by the Treasurer to determine if they agree with the documents that were submitted by the School District. When an error is detected, the Treasurer sends a letter to the County Fiscal Officer requesting a correction. The original document from the County Fiscal Officer along with the letter and the corrected document are retained by the Treasurer.

Auditor of State Comment from Report on Accounting Methods:

- Official budgetary documents are difficult to locate and, if located, they do not indicate the dates prepared and filed. The School District should properly maintain a file of these records.

Implemented:

The Treasurer keeps all the official budgetary documents in a filing cabinet in her office. The documents are neat and well organized. When budgetary information was requested from the Treasurer, the items were quickly retrieved. All amended certificates are filed in amendment number order by fiscal year. For

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appropriations, the Treasurer prepares a package which includes the letter requesting a new amended certificate (if required), appropriation resolution exhibit, statement of fund activity, County Fiscal Officer's certificate that total appropriations from each fund do not exceed the official estimate of resources and the Treasurer's 412 certificate.

Auditor of State Comment from Report on Accounting Methods:

- The Board, by policy, is to authorize those student activity programs it wishes to be operational by approving the budget and purpose statements each year. The Board minutes and student activity budget forms do not indicate Board approval of the student activity programs or budgets. In addition, appropriations are to be set with the approval of the budget and purpose statement and the appropriation resolution. The Board needs to revise its policies so that it is clear which amounts are to be used for budget purposes.

Implemented:

The Board approves the student activity budgets and purpose forms in September of each year. The student activity forms are signed by the activity sponsor, activity secretary and building principal and include the date of Board approval. Total appropriations are set by Board approval of the student activity forms.

Auditor of State Comment from Report on Accounting Methods:

- Budgeted revenues and appropriations in the accounting system do not agree with the most current supporting documents. Amendments should be posted to the accounting system after approval by the board for appropriations and the budget commission. The Treasurer should compare budgeted amounts in the accounting system to the current amended certificate and appropriations measures as passed by the board to ensure that recorded amounts are accurate.

Implemented:

Upon receipt of the Official Certificate of Estimated Resources or any amendments to that certificate, the Treasurer enters the changes into the accounting system and then compares the amounts in the certificate against the amounts in the Revenue Account Summary report to verify that they are the same. Likewise, upon approval by the Board, of temporary, permanent or amended appropriations and receipt of the Certificate of County Fiscal Officer that the Total Appropriations from Each Fund Do Not Exceed the Official Estimate of Resources, the Treasurer enters the amounts into the accounting system and then compares the amounts in the appropriation resolution to the amounts in the Appropriation Account Summary report to verify that they are the same.

Auditor of State Comment from Report on Accounting Methods:

- The Board has adopted a policy that authorizes the treasurer to reallocate appropriations during the fourth quarter of the fiscal year. The Board may not delegate its authority to establish appropriations. The appropriation process is a function of the legislative authority that must be performed by those specific individuals elected to fulfill that responsibility; therefore, the Board should eliminate this policy. If there is a need to amend appropriations, the treasurer should prepare the necessary documents and request appropriate action by the Board.

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Implemented:

The Board has amended its policy to indicate that any modification of appropriations at the legal level of control require Board approval. The legal level of control for all funds is at the fund level. All changes to appropriations at the fund level are made with Board approval regardless of the quarter.

Auditor of State Comment from Report on Accounting Methods:

- The Board-adopted appropriation measures did not have a certification of available revenues attached as required by Section 5705.412, Revised Code. Section 5705.412, Revised Code requires that a certificate of available revenue be attached to each appropriation, except a temporary appropriation measure meeting certain criteria. Under Section 3301-92-05(E) of the Ohio Administrative Code, each school district shall maintain sufficient documentation to justify each certification made under section 5705.412 of the Revised Code, and must identify the actual date of certification.

Implemented:

The Treasurer prepares a certificate of available revenues (412certificate) for all appropriation measures adopted by the Board. The certificates are signed by the Board President, Superintendent and Treasurer and all are dated.

Auditor of State Comment from Report on Accounting Methods:

- The treasurer should maintain a continuing record of the contracts which have been certified. This record includes, but is not limited to, vendor name, contract amount, contract amount allocated by year, purchase order number, and date. There is no list for fiscal year 2003.

Implemented:

The Treasurer maintains a record of all contracts greater than \$10,000.

Auditor of State Comment from Report on Accounting Methods:

- The forecast required to be submitted by October 31, 2002 was not approved by the Board of Education until November 18, 2002. The forecast presented to the Board and the Financial Planning and Supervision Commission on May 12, 2003, did not include assumptions. The School District should adopt a five-year forecast and submit it to the State Department of Education by October 31, each year. The School District should update its forecast, including the assumptions, as circumstances change and resubmit it to the State Department of Education during the year. The treasurer should maintain and attach adequate documentation to support each forecast.

Implemented:

The forecast required to be submitted by May 31, 2011 was approved by the Board on May 9, 2011. The forecast was presented to the Board and the Financial Planning and Supervision Commission on May 3, 2011 with assumptions. Copies of forecasts are maintained in the Treasurer's office with supporting documentation.

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Auditor of State Comment from Report on Accounting Methods:

- The School District is accounting for the proceeds of a .5 mill Classroom Facilities Maintenance Levy in the Classroom Facility capital projects fund. The School District should establish fund 034, Classroom Facilities Maintenance special revenue fund, to account for the proceeds from the voted tax levy and restate the beginning fund balances for the prior years' accumulated levy proceeds.

Implemented:

The School District has established fund 034, Classroom Facilities Maintenance special revenue fund to account for the proceeds from the voted tax levy and restated the beginning balance.

Revenue Activity

Auditor of State Comment from Report on Accounting Methods:

- The School District has been recording the homestead and rollback receipts in the General Fund instead of the various funds that receive property tax revenues. The homestead and rollback receipts were not recorded in the correct funds during fiscal years 2000, 2001, 2002 and 2003. The School District should restate fund balances for this error.

Implemented:

The School District now posts homestead and rollback monies in the General, Bond Retirement debt service and Classroom Facilities Maintenance special revenue funds.

Auditor of State Comment from Report on Accounting Methods:

- The School District has been recording property taxes based on the tax settlement sheets in the Classroom Facilities Fund (010) since collection of the revenue began. The Cuyahoga County Auditor should be notified of the error on the tax settlement sheets. The School District should record this revenue in the Classroom Facilities Fund (034) special revenue fund. The School District should restate fund balances for this error.

Implemented:

The School District now posts property tax monies in the Classroom Facilities Maintenance special revenue fund instead of the Classroom Facilities capital projects fund.

Auditor of State Comment from Report on Accounting Methods:

- The athletic director uses personal money as a change fund at athletic events. The athletic department should have a change fund established for the sale of tickets.

Implemented:

The athletic director now has a petty cash checking account. The account is used to write checks to pay athletic officials after sporting events and to write checks for change so ticket takers can make change at sporting events. The account is reconciled monthly by the Treasurer's office.

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Auditor of State Comment from Report on Accounting Methods:

- The School District should have a formal contract with the individual operating the concession stands at athletic events.

Implemented:

The School District implemented a policy that requires a written agreement between the School District and the organization for the use of School District facilities.

Auditor of State Comment from Report on Accounting Methods:

- The adult education department should request the establishment of a change fund and not use their petty cash fund to make change for the payment of student fees.

Implemented:

The School District discontinued all adult education activity.

Auditor of State Comment from Report on Accounting Methods:

- The School District should use a night depository for money collected at athletic events when the amount exceeds the limits specified in Board Policies.

Implemented:

The School District has established a night depository for money collected at athletic events. The athletic director prepares an athletic event form and a deposit ticket and makes the night deposit. The following day, he gives the athletic event form to the Treasurer's secretary. A pay-in order is prepared by the Treasurer's secretary and the information is posted to the accounting system.

Auditor of State Comment from Report on Accounting Methods:

- The student activity advisor and building administrator should ensure that the bottom half of the fund raising projections form is completed immediately at the end of the project and immediately filed in the treasurer's office.

Implemented:

The School District now completes the fund raising projection forms immediately after the end of the project.

Auditor of State Comment from Report on Accounting Methods:

- All forms used to account for the collection of monies should be initialed by the preparer and include supervisory review.

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Implemented:

All forms for the collection of monies are now initialed by the preparer and include supervisory review. Food service forms are signed by the food service supervisor, athletic department forms are signed by the athletic director and school building department forms are signed by the building secretary. Forms for money collected in the Treasurer's office are initialed by the Treasurer's secretary. All forms are reviewed by the accountant.

Auditor of State Comment from Report on Accounting Methods:

- The posting of receipts should be reviewed daily rather than at the time bank accounts are reconciled.

Implemented:

The Treasurer's secretary enters receipts into the accounting system and the accountant reviews the daily postings. However, State software requires that the School District close the prior month before any receipts can be posted to the current month so if there is a problem with the system close, receipts may not be posted to the accounting system for several days.

Auditor of State Comment from Report on Accounting Methods:

- The School District should record the \$10,000 personal property tax exemption using receipt code 3130, property tax allocation, rather than 1120, tangible personal property tax.

Implemented:

The School District now posts the \$10,000 personal property tax exemption to receipt code 3130 instead of 1120 tangible personal property tax; however, the School District no longer receives the \$10,000 personal property tax exemption.

Auditor of State Comment from Report on Accounting Methods:

- The Treasurer should review the collection of receipts for cafeterias' sales and athletic events to ensure there is a segregation of duties and/or compensating controls to ensure the accuracy of the collections and the deposit of all moneys.

Implemented:

The Treasurer reviews cafeteria and athletic event receipts monthly and has also implemented additional internal controls to insure the accuracy of collections. All monies are deposited within 24 hours and taken to the bank by a third party (a security officer). Money is counted by two different people to insure accuracy. Cafeteria receipts are counted by the cashier and the cafeteria supervisor. Athletic receipts are counted by the athletic director and the assistant athletic director. The Treasurer's secretary reviews receipts before entering them into the accounting system and the accountant reviews all receipts daily.

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Purchasing Process

Auditor of State Comment from Report on Accounting Methods:

- Board of Education policies and the purchasing manual require price quotes for various levels of purchases. These documents are not always in the voucher packets. The School District should obtain quotes from vendors and attach quote documentation to the requisition that goes with the purchase order in the voucher packet, or attach the documentation to the pink copy of the purchase order and file it by purchase order number.

Implemented:

The School District now places a copy of the quote document with the requisition. When purchase orders are printed and the copies are distributed, the requisition and quote are attached to the pink copy of the purchase order.

Auditor of State Comment from Report on Accounting Methods:

- Contracts have been encumbered based on Board resolutions rather than signed and certified contracts. The Treasurer should ensure that signed contracts are in place prior to encumbering funds, allowing work to be performed, and making payments to vendors.

Implemented:

Encumbrances are based on the signed and certified contract amounts.

Auditor of State Comment from Report on Accounting Methods:

- The School District maintains a file of the certificate of adequate revenues but does not always attach them to the contracts. The School District should ensure that the certification of adequate revenues (“412” certificate) is signed and attached to all qualifying contracts at the time the contract is authorized by the Board.

Implemented:

The School District no longer maintains a file of the certificate of adequate revenues but attaches the certificates to the corresponding contracts. The certificates are signed and dated by the Board President, Superintendent and Treasurer.

Auditor of State Comment from Report on Accounting Methods:

- The bid openings for some of the construction projects were conducted by the project manager and general contractor without the presence of the treasurer. The treasurer should attend all bid opening proceedings, retain formal minutes of bid opening proceedings, and should have all original bid documents and contracts on file in a central location.

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Implemented:

The Treasurer attends bid openings; however, no formal minutes of the bid proceedings are retained. The Treasurer prepares a list with the contractor's name, amount of the bid, if the bid is for the total project, and if the bid meets all the specifications. A bid form is also completed. The business manager has all original bid documents and contracts in a central file location. However, based on an opinion from the School District's legal council, a bid opening does not qualify as a public meeting therefore no minutes are required to be prepared and maintained.

Auditor of State Comment from Report on Accounting Methods:

- Contracts or agreements should not be signed prior to the date the Board authorizes the contract or agreement.

Implemented:

Contracts or agreements are signed after Board authorization.

Auditor of State Comment from Report on Accounting Methods:

- The School District should keep blank purchase order forms in a locked area overnight.

Implemented:

Purchase orders are now generated from the accounting system and printed on plain paper. If additional copies are needed, they can be printed from the system. There are no preprinted forms that need to be secured.

Auditor of State Comment from Report on Accounting Methods:

- The School District should clearly mark all blanket and super-blanket purchase orders as blanket and super-blanket purchase orders.

Implemented:

The School District no longer uses super-blanket purchase orders.

Auditor of State Comment from Report on Accounting Methods:

- Purchase orders have been issued and approved after the date of the invoice rather than a Then and Now Certificate. The School District should sign the Then and Now Certification on the purchase order.

Implemented:

When an invoice has been received for which a purchase order was not issued, the Treasurer has a purchase order prepared and she places a request for the approval of the Then and Now Certificate on the Board agenda. After the Then and Now Certificate has been approved by the Board, the Treasurer signs the Then and Now Certificate and authorizes the payment of the invoice.

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Auditor of State Comment from Report on Accounting Methods:

- The School District should provide “412” certificates signed by the treasurer, superintendent and Board president for all negotiated agreements, salary schedules and construction contracts. The “412” certificates should be signed at the time the contract was approved by the Board or no later than the time the contract is signed.

Implemented:

All negotiated agreements, labor contracts and construction contracts receive a “412” certificate that is signed by the Board President, Superintendent and Treasurer. The certificates are usually signed the same day as the contract or within a few days of the signing of the contract.

Auditor of State Comment from Report on Accounting Methods:

- The School District should revise the “412” certificate currently in use to comply with current law. The School District’s current form covers the current plus two fiscal years as required by the prior versions of the statute while current statute requires that the certificate cover the term of the contract.

Implemented:

The School District has revised the “412” certificate to comply with current law.

Cash Disbursements

Auditor of State Comment from Report on Accounting Methods:

- The School District should have a written policy addressing the invoice amount exceeding the purchase order amount. The twenty percent overage allowed should be reduced or eliminated and a Then and Now Certification should be completed.

Implemented:

Instead of the Board implementing a policy addressing the invoice amount exceeding the purchase order, the Treasurer has eliminated the twenty percent overage rule that was in effect. If the invoice amount exceeds the purchase order amount, a Then and Now certificate is issued after obtaining authorization from the Board to pay the overage and issue the certificate.

Auditor of State Comment from Report on Accounting Methods:

- The Treasurer should periodically review the Daily Check Log to ensure it is properly completed.

Implemented:

The Treasurer periodically reviews the daily check logs to ensure that the forms are properly completed. The accountant runs a check register report and compares it to the daily check logs for that month to determine if there are discrepancies. If a discrepancy is noted, the copy of the voucher is reviewed along with the supporting documentation to determine which is correct and the best corrective action to take.

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Auditor of State Comment from Report on Accounting Methods:

- The School District should not use the Daily Check Log for voided checks. If management desires, a separate voided check log may be maintained.

Implemented:

The daily check log is no longer used for voided checks. The void check number column remains on the log but it is now used to note “on demand” withdrawals and other information. Management has not expressed an interest in obtaining a separate voided check log. The accountant reviews the check register monthly for missing or voided checks and notes their status in the reconciliation details.

Auditor of State Comment from Report on Accounting Methods:

- The Treasurer should not pay invoices dated before the date of the purchase order and should not pay invoices that exceed the amount of the purchase order without a properly completed Then and Now Certificate or Board approval when the amount exceeds \$3,000.

Implemented:

The School District no longer pays invoices dated before the date of the purchase order or pays invoices that exceed the amount of the purchase order without a Then and Now Certificate. Although not required, Board approval is obtained for all Then and Now Certificates including those for amounts equal to or less than \$3,000.

Auditor of State Comment from Report on Accounting Methods:

- The School District should ensure that the manual checks written against the several construction project checking accounts are entered into the computer system the same date the checks are written.

Implemented:

The School District no longer writes manual checks.

Auditor of State Comment from Report on Accounting Methods:

- Access to the check signer key should be with the Treasurer and not the purchasing agent.

Implemented:

The School District no longer has check signing equipment that requires the use of a key. Instead, the School District uses Edge digital signature software to sign checks. The Treasurer, both accounts payable clerks and the Assistant Treasurer have access to the check signing software.

Auditor of State Comment from Report on Accounting Methods:

- The white copy of the check should be maintained in numerical order, or placed in a vendor file, or the treasurer should order two part checks.

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Implemented:

The District no longer obtains boxes of checks. Checks are created in the Edge software. Checks are printed using the digital signature software and a copy is included in the vendor file.

Auditor of State Comment from Report on Accounting Methods:

- The School District allows various funds to carry a deficit cash balance. Disbursements should not be made from a fund with an insufficient cash balance. If the timing of receipts is an issue, the treasurer should request, by resolution, Board approval of an advance from the general fund. The resolution should state how and when the advance will be repaid.

Implemented:

There were no negative fund balances at June 30, 2008, 2009 or 2010. Also, at the end of each month in fiscal year 2011 there were no negative fund balances. Monthly, the Treasurer reviews the fund activity and if expenditures have been made based on anticipated or requested grant proceeds, advances are requested from the general fund with Board approval. The advances are usually returned during the following month when the grant proceeds have been received.

Payroll Processing

Auditor of State Comment from Report on Accounting Methods:

- The School District does not have a policy that specifically addresses overtime pay for classified or hourly paid employees. The School District should have a policy that addresses eligibility, circumstances that justify authorization of overtime and approval of overtime.

Implemented:

The union contract between the Board of Education and the Ohio Association of Public School Employees (classified employees) which was approved by the Board for the period from July 1, 2007 through June 30, 2010 is the policy of the School District. The contract addresses overtime pay, which employees are eligible for overtime, circumstances under which authorization of overtime is justified, when an employee may opt to receive compensatory time in lieu of overtime pay and approval of overtime.

Auditor of State Comment from Report on Accounting Methods:

- The School District should ensure that Payroll Change Notice forms are always signed and dated by the employee and the employee's supervisor.

Implemented:

Payroll Change Notice forms are signed and dated by the employee, the employee's supervisor and the human resource manager. If the human resource manager receives a Payroll Change form without the employee or supervisor signature and date, the form is returned for the signature and date along with a notice that the change cannot be completed until the signature and date are entered.

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Auditor of State Comment from Report on Accounting Methods:

- The School District should ensure that all information asked for on leave of absence forms is completed, forms are approved or disapproved, and the appropriate supervisor signs the forms.

Implemented:

The School District ensures that all the information asked for on the leave of absence forms is completed, that forms are approved or disapproved, and the appropriate supervisor signs the forms.

Auditor of State Comment from Report on Accounting Methods:

- The purchasing agent should not have access to the check signer key and access codes that switch the check signer from report mode to payroll check signing mode in the treasurer's office.

Implemented:

The School District no longer has the check signing equipment that requires the use of a key. Instead, the School District uses digital signature software to sign checks. The Treasurer, Assistant Treasurer and Payroll Supervisor have access to the payroll check signing software

Debt Administration

Auditor of State Comment from Report on Accounting Methods:

- The 1999 School Improvement Bonds include serial, term, and capital appreciation bonds. The capital appreciation bonds are deep-discount bonds that pay no interest while outstanding and pay face value at maturity. The School District has not reported the accreted interest in the financial statements or the notes to the financial statements. The accreted interest should be presented as an increase in the outstanding balance of the bond issue and in the table for future debt service requirements.

Implemented:

The School District now reports the accreted interest in the financial statements and the notes to the financial statements.

Auditor of State Comment from Report on Accounting Methods:

- The School District reports in the notes to the financial statements the future debt service requirements on a calendar year basis. The debt service requirements presented in this disclosure should be presented on a fiscal year basis.

Implemented:

The School District now reports the future debt service requirements to maturity on a fiscal year basis.

East Cleveland City School District – Cuyahoga County

**Report on Termination of the East Cleveland City School District
Financial Planning and Supervision Commission**

Capital Assets and Supplies Inventory

Auditor of State Comment from Report on Accounting Methods:

- The School District does not maintain a capital asset accounting system; therefore, there is no compliance with existing Board policies.

Implemented:

The School District does not maintain a capital asset accounting system. Capital assets are maintained through a contract with Industrial Appraisal that is consistent with Board policy.

Auditor of State Comment from Report on Accounting Methods:

- The Board policy for verification of capital assets should be changed from every five years to a shorter period of time. Verification for computers, audio visual and similar equipment should be verified every year. Other capital assets may be verified on a staggered basis over a two or three year period.

Implemented:

The School District updated its capital assets policy to address the verification of capital assets. The verification period of capital assets is every two years except for computers, audio visual and similar equipment, which is every year.

Auditor of State Comment from Report on Accounting Methods:

- The School District should obtain a copy of the Capital Assets Manual published by the Auditor of State's office to use as a guide in the development and implementation of fixed asset policies and procedures.

Implemented:

The School District has developed a detailed written capital asset policy and procedures manual that addresses the valuing of donated assets, assigning salvage values and private property (items belonging to staff and students).

Cash Management and Investing

Auditor of State Comment from Report on Accounting Methods:

- The School District should complete a consolidated monthly bank reconciliation that equals the fund cash balances and all reconciling factors should be properly documented. Current bank reconciliations include a bank over book amount that varies each month.

East Cleveland City School District – Cuyahoga County

**Report on Termination of the East Cleveland City School District
Financial Planning and Supervision Commission**

Implemented:

Consolidated bank reconciliations are prepared monthly that reconcile the total fund cash balances, bank accounts and investments. The School District has maintained the same unknown variance for over a year and once the audits are completed, the books will be adjusted by this amount.

Auditor of State Comment from Report on Accounting Methods:

- The Treasurer should record bank charges, interest, and any other adjustments to the accounting records upon completing the bank reconciliations. Reconciling adjustments should not be carried forward for an extended period of time. Adjustments caused by bank errors should be corrected within one month.

Implemented:

Interest and bank charges and any other adjustments to the accounting records are posted monthly. The bank is notified of bank errors on the bank statement, the situation is explained and a confirmation is obtained that the bank will correct the error. Reconciling items are researched and not carried forward for any extended period of time.

Auditor of State Comment from Report on Accounting Methods:

- The Treasurer should assign to a specific individual the duty of reconciling all bank accounts on a monthly basis. The bank statements should be obtained from each bank within the first few days of the next month rather than waiting for delivery by mail. All reconciliations should be completed within two weeks of the month-end closing. The treasurer should review and approve all monthly bank reconciliations.

Implemented:

The accountant reconciles all bank accounts monthly. Bank statements and other information can be obtained through on-line banking daily or on the last day of the month. Receipts and outstanding checks that clear the bank can be viewed daily by this method. Reconciliations are usually completed within ten days of closing the School District's records. The Treasurer reviews and approves all monthly bank reconciliations.

Auditor of State Comment from Report on Accounting Methods:

- The bank and investment transactions of the capital projects funds should be posted upon occurrence. These accounts should be closed once the reconciliation issues are resolved with the School District's primary checking account. The practice of issuing manual checks to the project contractors should cease. Project contractors should be paid by a computer generated check issued against the primary account or electronic funds transfer. A bank transfer equal to the amount of the payments from the construction account to the primary checking should be made upon issuance of the check.

East Cleveland City School District – Cuyahoga County

Report on Termination of the East Cleveland City School District Financial Planning and Supervision Commission

Implemented:

The construction project checking accounts have all been reconciled and closed. The only bank account that contains capital projects funds exclusively is an investment account. Amounts are transferred from the investment account to the general checking account and then a construction contractor is issued a check from the general checking account. The School District no longer issues manual checks.

Auditor of State Comment from Report on Accounting Methods:

- The Treasurer should establish written control procedures for the voiding of checks.

Implemented:

The Treasurer has established procedures that are consistent with the School District's A-Site, the Lakeshore Northeast Ohio Computer Association for voiding checks. The procedures for voiding checks are maintained in the Lakeshore Northeast Ohio Computer Association manual.

Auditor of State Comment from Report on Accounting Methods:

- The School District should establish an interest allocation policy. The policy should comply with State law, include the specific funds to receive interest, and identify the method used to allocate the interest.

Implemented:

The School District has updated its investment policy to include the allocation of interest, specific funds to receive interest and the method used to allocate the interest. The School District follows State statute to allocate interest. Interest is allocated to the general fund and the classroom facilities capital projects fund based on month end fund balances.

Auditor of State Comment from Report on Accounting Methods:

- The Board should revise the petty cash policy to comply with the guidance in Auditor of State Bulletin 99-019. The policy should include the office, department, and buildings that are authorized a petty cash fund and/or change funds and the amount of the fund.

Implemented:

The Board has approved standard procedures for a petty cash checking account that are in compliance with Auditor of State Bulletin 99-019.

Auditor of State Comment from Report on Accounting Methods:

- A change fund currently exists for the high school cafeteria. There are no change funds in the cafeterias at the other buildings and there is no Board policy for change funds.

East Cleveland City School District – Cuyahoga County

Report on Termination of the East Cleveland City School District Financial Planning and Supervision Commission

Implemented:

The Board, by resolution, has established a policy for change funds that addresses the custodian of the fund and department with the change fund and how to close the fund.

Financial Reporting

Auditor of State Comment from Report on Accounting Methods:

- The School District should establish an audit committee to act as an informed, vigilant, and effective overseer of the financial reporting process.

Implemented:

The School District has established an audit committee. The committee is made up of three members and has set meeting dates at once every quarter.

Auditor of State Comment from Report on Accounting Methods:

- The Board should receive copies of the appropriations and revenue reports for all funds.

Implemented:

When the appropriations are passed or amended, the Board receives an updated Statement of Fund Activity. The Statement of Fund Activity includes the current appropriations by fund and the County Fiscal Officer's Amended Certificate of Estimated Resources by fund that is in effect at the time the appropriations are passed. The Board also receives the Financial Report by Fund monthly. The report includes the beginning cash balance, month-to-date receipts, fiscal year-to-date receipts, month-to-date expenditures, fiscal year-to-date expenditures, current fund balance, current encumbrances and unencumbered fund balance. The Treasurer also prepares a monthly report for the Board that compares the year-to-date budgeted versus actual receipts and expenditures for the general fund, poverty based aid and SFSF special revenue funds.

Auditor of State Comment from Report on Accounting Methods:

- The Commission has requested that the Treasurer prepare and submit the SM-1 and SM-2 reports, monthly, in addition to the other reports provided to the Board and the Commission.

Implemented:

The SM-1 and SM-2 forms have been eliminated from the Ohio Department of Education required forms listing but the Treasurer prepares and submits to the Board a monthly report that incorporates both the SM-1 (annual spending plan) and the SM-2 (quarterly spending status report).

Auditor of State Comment from Report on Accounting Methods:

- The unaudited financial statements for the fiscal year ended June 30, 2002 were filed on November 27, 2002. The Audit has not yet been completed. Following the release of the annual audit report, the treasurer should provide a copy to each Board member.

East Cleveland City School District – Cuyahoga County

**Report on Termination of the East Cleveland City School District
Financial Planning and Supervision Commission**

Implemented:

The fiscal year 2007 through 2010 audits have been released. The Auditor of State's office electronically distributes the audit reports to the administration and board members.

Recording Official Proceedings

Auditor of State Comment from Report on Accounting Methods:

- Minutes of all regular and special meetings should always be read and approved, unless corrections are needed, at the next regular meeting of the Board. The minutes should be completed and signed immediately following the meeting at which they are approved. The Board minutes are not approved at each meeting nor are they signed when approved.

Implemented:

At each meeting the Board now approves the minutes of the prior meeting. The prior meeting minutes are signed by the time the next meeting is held.

Auditor of State Comment from Report on Accounting Methods:

- The minutes should include a synopsis of any discussions of matters the Board is considering. The minutes do not include a synopsis of any discussions. The Board has an audio recording of all of its meetings. The Board should review Ohio Public Records Law to determine whether its' minutes and the retention of the tapes are in compliance with the law.

Implemented:

The School District has expanded its method of keeping the minutes by including a synopsis of any discussion of matters the Board is considering.

Auditor of State Comment from Report on Accounting Methods:

- The School District should include attachments to resolutions in the record of proceedings book.

Implemented:

Attachments to resolutions are now included in the record of proceedings book.

Auditor of State Comment from Report on Accounting Methods:

- Official budgetary documents at the School District are difficult to locate and, if located, they do not indicate the appropriate dates.

Implemented:

All official budgetary documents are kept in a filing cabinet in the Treasurer's office. The documents are neat and well organized. When budgetary information was requested from the Treasurer, the items were quickly retrieved. All amended certificates are filed in amendment number order by fiscal year. For

East Cleveland City School District – Cuyahoga County

Report on Termination of the East Cleveland City School District Financial Planning and Supervision Commission

appropriations, the Treasurer prepares a package which includes the letter requesting a new amended certificate (if required), appropriation resolution exhibit, statement of fund activity, County Fiscal Officer's certificate that total appropriations from each and do not exceed the official estimate of resources and the Treasurer's 412 certificate.

Recent Audit Report and Compliance and Management Letters

In addition to reviewing the actions taken to address the issues identified in the Report on Accounting Methods and before releasing a school district from fiscal emergency, the Auditor of State reviews the current audit report to determine if there are deficiencies in the school district's financial reporting or any significant failures to comply with the requirements of the Ohio Revised Code.

The Auditor of State released an audit report on the School District's financial statements for the fiscal year ended June 30, 2010, on May 24, 2011. The report expressed an unqualified opinion of the financial statements.

As part of the audit report, the School District receives letters on legal compliance and related internal controls and a management letter. These documents disclosed non-compliance issues with State laws, regulations, contracts, and grant requirements relating to the audit for 2010. The letters identified non-compliance issues with grant cost allocation. The management letter for fiscal year 2010 included recommendations on policies, approving advances, treatment of outstanding checks, payroll account activity, and federal cash management and reporting.

The School District has corrected or is in the process of correcting the issues identified in the compliance and management letter; therefore, the Auditor of State has concluded that the issues identified in the Compliance and Management letter do not require that the School District's release from fiscal emergency be delayed.

Section 2 - Fiscal Emergency Conditions

The Auditor of State shall issue an order, under Section 3316.03, Revised Code, declaring a school district to be in a state of fiscal emergency if the Auditor of State determines that a school district meets any of the criteria for fiscal emergency. The criteria are as follows:

1. An operating deficit has been certified for the current fiscal year, and the certified operating deficit exceeds 15 percent of the school district's general fund revenue for the preceding fiscal year and a levy has not been passed by the voters that will raise enough additional revenue to eliminate the first condition in the succeeding fiscal year.
2. The school district board fails to submit a plan acceptable to the State Superintendent of Public Instruction within 120 days of the declaration of fiscal watch, or an updated plan no later than the anniversary of the date on which the first plan was approved.
3. The Superintendent of Public Instruction has reported to the Auditor of State that the school district is not materially complying with the provision of an original or updated plan as approved by the State Superintendent, and that the State Superintendent has determined a declaration of a state of fiscal emergency is necessary to prevent further fiscal decline, and the Auditor of State finds that the determination of the Superintendent is reasonable.

East Cleveland City School District – Cuyahoga County

Report on Termination of the East Cleveland City School District Financial Planning and Supervision Commission

4. A declaration is made under Section 3316.04 of the Ohio Revised Code for a school district that has restructured or refinanced an emergency operating loan under Section 3316.041 of the Ohio Revised Code; and,
5. The Auditor of State may issue an order declaring a school district to be in a state of fiscal emergency if (1) an operating deficit has been certified for the current fiscal year, and the certified operating deficit exceeds 10 percent, but does not exceed 15 percent, of the school district's general fund revenue for the preceding fiscal year; (2) a levy has not been passed by the voters that will raise enough additional revenue to eliminate the first condition in the succeeding fiscal year; and, (3) the Auditor of State determines that a declaration of fiscal emergency is necessary to correct the district's fiscal problems and to prevent further fiscal decline.

In order to be released from fiscal emergency, a school district must have corrected or eliminated the fiscal emergency conditions that existed at the time of the emergency declaration and no new emergency conditions may have occurred.

The results of our analysis of the fiscal emergency conditions are as follows:

1. The School District no longer has an operating deficit in the general fund.
2. The State Superintendent of Public Instruction has not reported to the Auditor of State any material noncompliance with the original or amended financial recovery plan.
3. The School District has not restructured or refinanced an emergency operating loan under Section 3316.041 of the Ohio Revised Code.
4. The examination of the School District's five-year forecast includes a non-adverse opinion rendered by the Auditor of State.

Section 3 - Financial Recovery Plan

We obtained and reviewed a copy of the latest financial recovery plan of the School District, dated May 25, 2010. The Treasurer of the School District and the Chairperson of the Financial Planning and Supervision Commission provided us with a summary of the key provisions of the plan and the actions taken to achieve the provisions of the plan, which were confirmed by us. The key provisions of the financial plan are as follows:

1. The School District will continue to develop and maintain a five-year financial forecast that establishes the parameters of expenditures versus revenues for the School District. The forecast will be updated as required to reflect the changes in assumptions and the most likely course of the School District.
2. The Board of Education will contain expenditures within the five-year financial forecast and the Financial Recovery Plan.
3. The School District will review and follow its purchasing procedures and ensure that each transaction is properly authorized, documented and recorded.

East Cleveland City School District – Cuyahoga County

Report on Termination of the East Cleveland City School District Financial Planning and Supervision Commission

Actions taken to achieve the provisions of the plan include the following:

1. Continued monitoring of operating expenditures;
2. Continued monitoring of personnel;
3. Continued preparation by the School District of monthly reports of receipts, expenditures, and encumbrances, monitored by staff from the Fiscal Assistance Section of the Ohio Department of Education; and
4. Continued monitoring of its purchasing procedures.

Section 4 - Five-year Forecast

The Auditor of State examined the School District's financial forecast for the fiscal years ending June 30, 2011 through 2015, for the purpose of determining whether the fiscal emergency conditions have been eliminated and whether any new fiscal emergency conditions are expected to occur during the forecast period.

The School Districts' five-year forecast (see Appendix A) presents a positive unencumbered and unreserved general fund balance for the five-year period ending June 30, 2015. The Auditor of State, in a report dated April 18, 2011, rendered a "nonadverse" opinion on the financial forecast.

Section 5 - Conclusion

Based on our review, the Auditor of State has determined the following:

1. The School District has adopted and implemented an effective accounting and reporting system;
2. The School District has corrected or eliminated all the fiscal emergency conditions, no new conditions have occurred, and it appears that, based on the five-year financial forecast, the School District will remain out of fiscal emergency during the forecast period;
3. The School District has met the major objectives of the Financial Recovery Plan; and,
4. The School District has prepared a financial forecast for a five-year period in accordance with standards issued by the Auditor of State, and the opinion expressed by the Auditor of State is "nonadverse".

Therefore, the Auditor of State has determined that the Financial Planning and Supervision Commission of the East Cleveland City School District and its functions may be terminated.

DISCLAIMER

Because the preceding procedures were not sufficient to constitute an audit made in accordance with generally accepted auditing standards, we do not express an opinion on any of the specific accounts and fund balances referred to above. Had we performed additional procedures or had we made an audit of the financial statements in accordance with generally accepted auditing standards, other matters might have come to our attention that would have been reported herein.

East Cleveland City School District – Cuyahoga County
Report on Termination of the East Cleveland City School District
Financial Planning and Supervision Commission

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APPENDIX A

East Cleveland City School District
Cuyahoga County, Ohio

Financial Forecast

For the Fiscal Years Ending June 30, 2011 through June 30, 2015

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East Cleveland City School District – Cuyahoga County

Fiscal Emergency Termination

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Dave Yost • Auditor of State

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

Independent Accountant's Report

We have examined the accompanying forecasted statement of revenues, expenditures and changes in fund balance of the general fund of the East Cleveland City School District for the fiscal years ending June 30, 2011 through 2015. The East Cleveland City School District's management is responsible for the forecast. Our responsibility is to express an opinion on the forecast based on our examination.

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

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

The accompanying financial forecast has been prepared assuming the School District will receive the same amount of State Unrestricted grants-in-aid for fiscal years 2011 through 2014, and no base salary increases for fiscal years 2013 through 2015. The assumptions identify the uncertainty with these items and that they could have a material effect on the outcome of the forecast. These matters are further discussed in Notes 6C and 7A, respectively, in the Summary of Significant Accounting Policies and Assumptions.

The accompanying statement of revenues, expenditures and changes in fund balance of the general fund of the East Cleveland City School District for the fiscal years ended June 30, 2008, 2009 and 2010 were compiled by us in accordance with the Statements on Standards for Accounting and Review Services issued by the American Institute of Certified Public Accountants. Our responsibility is to conduct the compilation in accordance with Statements on Standards for Accounting and Review Services issued by the American Institute of Certified Public Accountants. The objective of a compilation is to assist management in presenting financial information in the form of financial statements without undertaking to obtain or provide any assurance that there are no material modifications that should be made to the financial statements. Management has elected to omit substantially all of the disclosures associated with the historical financial statements; these disclosures might influence a user's conclusions regarding the School District's results of operations. Accordingly, these financial statements are not designed for those who are not informed about such matters.

A handwritten signature in black ink that reads "Dave Yost".

DAVE YOST
Auditor of State

April 18, 2011

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East Cleveland City School District
Cuyahoga County
Statement of Revenues, Expenditures and Changes in Fund Balance
For the Fiscal Years Ended June 30, 2008 Through 2010 Actual;
For the Fiscal Years Ending June 30, 2011 Through 2015 Forecasted
General Fund

	Fiscal Year 2008 Actual	Fiscal Year 2009 Actual	Fiscal Year 2010 Actual
Revenues			
General Property Tax	\$8,228,000	\$7,849,000	\$7,592,000
Tangible Personal Property Tax	1,204,000	985,000	131,000
Unrestricted Grants-in-Aid	32,188,000	31,464,000	31,795,000
Restricted Grants-in-Aid	4,404,000	4,472,000	1,447,000
Restricted Federal Grants-in-Aid	0	0	2,246,000
Property Tax Allocation	2,154,000	2,115,000	2,562,000
All Other Revenues	4,765,000	5,199,000	4,878,000
<i>Total Revenues</i>	<u>52,943,000</u>	<u>52,084,000</u>	<u>50,651,000</u>
Other Financing Sources			
Advances In	2,983,000	7,231,000	7,033,000
<i>Total Revenues and Other Financing Sources</i>	<u>55,926,000</u>	<u>59,315,000</u>	<u>57,684,000</u>
Expenditures			
Personal Services	23,063,000	23,487,000	22,689,000
Employees' Retirement/Insurance Benefits	8,619,000	8,602,000	9,072,000
Purchased Services	12,055,000	12,683,000	12,794,000
Supplies and Materials	1,509,000	2,068,000	1,526,000
Capital Outlay	726,000	405,000	112,000
Other Objects	227,000	384,000	488,000
<i>Total Expenditures</i>	<u>46,199,000</u>	<u>47,629,000</u>	<u>46,681,000</u>
Other Financing Uses			
Transfers Out	235,000	384,000	345,000
Advances Out	6,132,000	5,071,000	11,348,000
All Other Financing Uses	0	13,000	0
<i>Total Other Financing Uses</i>	<u>6,367,000</u>	<u>5,468,000</u>	<u>11,693,000</u>
<i>Total Expenditures and Other Financing Uses</i>	<u>52,566,000</u>	<u>53,097,000</u>	<u>58,374,000</u>
<i>Excess of Revenues and Other Financing Sources Over (Under) Expenditures and Other Financing Uses</i>	3,360,000	6,218,000	(690,000)
Cash Balance July 1	21,824,000	25,184,000	31,402,000
Cash Balance June 30	25,184,000	31,402,000	30,712,000
Encumbrances and Reserves of Fund Balance			
Actual/Estimated Encumbrances June 30	1,681,000	2,617,000	2,621,000
Reserves for:			
Bus Purchases	61,000	82,000	82,000
Total Encumbrances and Reserves of Fund Balance	<u>1,742,000</u>	<u>2,699,000</u>	<u>2,703,000</u>
Unencumbered/Unreserved Fund Balance June 30	<u>\$23,442,000</u>	<u>\$28,703,000</u>	<u>\$28,009,000</u>

See accompanying summary of significant forecast assumptions and accounting policies
See Independent Accountant's Report

<u>Fiscal Year 2011 Forecasted</u>	<u>Fiscal Year 2012 Forecasted</u>	<u>Fiscal Year 2013 Forecasted</u>	<u>Fiscal Year 2014 Forecasted</u>	<u>Fiscal Year 2015 Forecasted</u>
\$7,448,000	\$7,462,000	\$7,445,000	\$7,430,000	\$7,414,000
66,000	0	0	0	0
31,954,000	31,954,000	31,954,000	31,954,000	31,954,000
283,000	283,000	283,000	283,000	283,000
3,294,000	984,000	0	0	0
2,666,000	2,711,000	2,708,000	1,965,000	1,778,000
5,460,000	5,373,000	5,373,000	5,373,000	5,373,000
<u>51,171,000</u>	<u>48,767,000</u>	<u>47,763,000</u>	<u>47,005,000</u>	<u>46,802,000</u>
<u>10,829,000</u>	<u>12,461,000</u>	<u>5,539,000</u>	<u>5,539,000</u>	<u>5,539,000</u>
<u>62,000,000</u>	<u>61,228,000</u>	<u>53,302,000</u>	<u>52,544,000</u>	<u>52,341,000</u>
24,385,000	24,741,000	25,379,000	25,825,000	26,314,000
9,089,000	9,741,000	9,638,000	10,223,000	10,866,000
14,721,000	14,687,000	15,001,000	15,314,000	15,694,000
1,838,000	1,822,000	1,891,000	1,996,000	2,038,000
807,000	259,000	326,000	261,000	501,000
652,000	657,000	657,000	657,000	657,000
<u>51,492,000</u>	<u>51,907,000</u>	<u>52,892,000</u>	<u>54,276,000</u>	<u>56,070,000</u>
364,000	364,000	364,000	364,000	364,000
11,348,000	5,539,000	5,539,000	5,539,000	5,539,000
63,000	0	0	0	0
<u>11,775,000</u>	<u>5,903,000</u>	<u>5,903,000</u>	<u>5,903,000</u>	<u>5,903,000</u>
<u>63,267,000</u>	<u>57,810,000</u>	<u>58,795,000</u>	<u>60,179,000</u>	<u>61,973,000</u>
(1,267,000)	3,418,000	(5,493,000)	(7,635,000)	(9,632,000)
<u>30,712,000</u>	<u>29,445,000</u>	<u>32,863,000</u>	<u>27,370,000</u>	<u>19,735,000</u>
<u>29,445,000</u>	<u>32,863,000</u>	<u>27,370,000</u>	<u>19,735,000</u>	<u>10,103,000</u>
2,600,000	2,600,000	2,600,000	2,600,000	2,600,000
82,000	82,000	16,000	16,000	0
<u>2,682,000</u>	<u>2,682,000</u>	<u>2,616,000</u>	<u>2,616,000</u>	<u>2,600,000</u>
<u>\$26,763,000</u>	<u>\$30,181,000</u>	<u>\$24,754,000</u>	<u>\$17,119,000</u>	<u>\$7,503,000</u>

East Cleveland City School District

Cuyahoga County

Summary of Significant Assumptions and Accounting Policies
For the Fiscal Year Ending June 30, 2011 through June 30, 2015

Note 1 – The School District

The East Cleveland City School District (School District) is located in Cuyahoga County and encompasses all of the City of East Cleveland. The School District is organized under Article VI, Sections 2 and 3, of the Constitution of the State of Ohio. The legislative power of the School District is vested in the Board of Education, consisting of five members elected at large for staggered four year terms. The School District currently operates seven instructional buildings, one warehouse building, one administration building, one bus garage and one stadium. The School District is staffed by 123 classified and 306 certificated personnel to provide services to approximately 3,247 students and other community members.

On March 12, 2003, the School District was declared to be in a state of “Fiscal Emergency” under Section 3316.03(B)(2) by the Auditor of State. The declaration was due to the School District’s declining financial condition. In accordance with the law, a five member Financial Planning and Supervision Commission has been established to oversee the financial affairs of the School District. The Commission is comprised of the State Superintendent of Public Instruction and the State Director of Budget and Management or their designees, and three appointed members. The appointments are made by the Governor of the State of Ohio, the State Superintendent of Public Instruction, and the Mayor of the City of East Cleveland. The Commission’s primary charge is to develop, adopt, and implement a financial recovery plan. Once the plan has been 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.

Note 2 - Nature of the Forecast

This financial forecast presents, to the best of the East Cleveland City School District Board of Education's knowledge and belief, the expected revenues, expenditures and operating balance of the general fund. Accordingly, the forecast reflects the Board of Education's judgment of the expected conditions and its expected course of action as of April 18, 2011, the date of this forecast. The assumptions disclosed herein are those that management believes are significant to the forecast. Differences between the forecasted and actual results will usually arise because events and circumstances frequently do not occur as expected, and those differences may be material.

Note 3 – Nature of the Presentation

The forecast presents the revenues, expenditures, and changes in fund balance of the general fund. Under State law, certain general fund resources received from the State must be spent on specific programs. These resources and the related expenditures have been segregated in the accounting records of the School District to demonstrate compliance. State laws also require general fund resources pledged for the repayment of debt to be recorded directly in the debt service fund. For presentation in the forecast, the poverty based assistance fund, the education jobs grant fund, the State fiscal stabilization fund and the general fund supported debt are included in the general fund.

Note 4 - Summary of Significant Accounting Policies

A. - Basis of Accounting

This financial forecast has been prepared on a basis of cash receipts, disbursements, and encumbrances, which is consistent with the required budget (non-GAAP) basis of accounting used to prepare the historical financial statements. Under this basis of accounting, certain revenues and related assets are

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recognized when received rather than when earned and certain expenditures are recognized when paid rather than when the obligation is incurred. However, by virtue of Ohio law, the School District is required to maintain the encumbrance method of accounting. This method requires purchase orders, contracts, and other commitments for the expenditure of monies to be recorded as the equivalent of expenditure in order to reserve that portion of the applicable appropriation and to determine and maintain legal compliance.

B. - Fund Accounting

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

Governmental Funds

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

Special Revenue Funds - Special revenue funds account for and report the proceeds of specific ongoing revenue sources (other than for major capital projects) that are restricted or committed to expenditure for operation of a specific program.

Debt Service Funds - Debt service funds account for and report financial resources that are restricted, committed, or assigned to the payment of general long-term and short-term debt principal and interest.

Capital Projects Funds - Capital projects funds account for and report financial resources that are restricted, committed, or assigned to expenditure for the acquisition or construction of major capital assets (other than those financed by proprietary funds).

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

Proprietary Funds

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

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

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Fiduciary Funds

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

C. - Budgetary Process

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

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

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

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

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

Note 5 - General Operating Assumptions

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

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Note 6 - Significant Assumptions for Revenues and Other Financing Sources

A. - General and Tangible Personal Property Taxes

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

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

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

Prior to fiscal year-end, a school district may request an advance of real property tax collections that ordinarily would be settled in August and used to finance the upcoming fiscal year. The forecast excludes the receipt of any advances against fiscal year 2012 scheduled property tax settlements. The potential advances have been excluded due to the School District's inability to appropriate this revenue until received and the uncertainty of the timing of any advances. Currently, it is the Board's intent not to appropriate any such advances for fiscal years 2011 through 2015.

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

<u>Tax Levies</u>	<u>Year Approved</u>	<u>First Calendar Year of Collection</u>	<u>Full Tax Rate (per \$1,000 of assessed valuation)</u>
Inside Ten Mill Limitation (Unvoted)	n/a	n/a	\$4.78
Continuing Operating	1976	1977	50.90
Continuing Operating	1982	1983	5.90
Continuing Operating	1985	1986	7.90
Continuing Operating	1989	1990	8.90
Continuing Operating	1992	1993	10.00
Total Tax Rate			<u><u>\$88.38</u></u>

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

Ohio law provides for a reduction in the rates of voted levies to offset increased values resulting from a reappraisal of real property. Reduction factors are applied to voted levies so that each levy yields the same amount of real property tax revenues on carryover property as in the prior year. Reduction factors are also adjusted to generate the same amount of property tax revenue on carryover property when there is a decline in the assessed valuation of property. For all voted levies, except emergency and debt levies, increases in revenues are restricted to amounts generated from new construction. Emergency and debt levies are intended to generate a set revenue amount annually. The revenue generated by emergency and debt levies is not affected by changes in real property valuation. The reduction factors are computed annually and applied separately for residential/agricultural real property and commercial/industrial real property. Reduction factors are not applied to inside millage (an unvoted levy) nor to tangible personal property levy rates. State law also prohibits the reduction factors from reducing the effective millage of the sum of the general fund current operating levies (excluding emergency levies) plus inside millage used for operating purposes below 20 mills. For the general fund, the effective residential and agricultural real property tax rate is at \$35.20 per \$1,000 of assessed valuation for collection year 2011, and the effective commercial and industrial real property tax rate is \$56.80 per \$1,000 of assessed valuation for collection year 2011.

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

General Property Tax - General property tax revenue includes real estate taxes and public utility property taxes. General property tax represents gross property tax revenue and is based upon anticipated assessed valuations and existing tax levies. Assessed values for tax year 2010 (collection year 2011) decreased due to demolition and destruction of condemned and/or abandoned buildings and a decline in new construction. The decreases caused by declines in the fair value of property are offset by decreases in the reduction rates which yields an increase in the effective millage rates. Due to current economic conditions in the City of East Cleveland, decreases in assessed values are anticipated for the remaining forecast periods. The School District's total delinquent taxes outstanding as of June 30, 2010 are \$10,820,644. Delinquencies are forecasted to increase during the forecast period thereby reducing the overall tax collections.

Tangible Personal Property Tax - Tangible personal property tax was levied on machinery and equipment, furniture and fixtures, and inventory of businesses. Effective for tax years 2005 and 2006, the assessment rate on personal property began a phase out of the tax. No tangible personal property taxes were levied or collected in calendar year 2010 from general business taxpayers and no tangible personal property tax on telephone property will be collected in 2011. The School District, based on the last year of collections before the phase out period, lost approximately \$1,400,000, annually. The State of Ohio

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reimbursed the School District for the loss of tangible personal property taxes as a result of the changes in House Bill 66 within certain limitations (see Property Tax Allocation below). The decrease in revenue during fiscal years 2009 through 2011 is a result of the tax changes above.

B. - Unrestricted and Restricted Grants-in-Aid

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

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

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

Beginning in fiscal year 2010, the State General Assembly adopted a new funding method called the Ohio Evidence-Based Model (OEBM). The Ohio Evidence-Based Model was established in Chapter 3306 of the Ohio Revised Code and links educational research on academic achievement and successful outcomes with funding components to achieve results. It incorporates real financial data and socioeconomic factors to fund resources and implement proven school programs according to the student need to achieve educational adequacy. The adequacy amount is the sum of service support components for instruction, administrative, operations and maintenance, gifted and enrichment, professional development and an instructional materials factor. These factors are multiplied against the Ohio education challenge factor (a district's wealth factor) and the State-wide base salary for given positions and the number of positions funded. Other factors included in the calculation are student/teacher ratios, organizational units, and average daily membership (ADM). The adequacy amount is offset by the school district share of the adequacy amount (the charge off amount), which is equal to 22 mills for fiscal years 2010 and 2011, 21 mills for fiscal years 2012 and 2013 and 20 mills for fiscal year 2014 and thereafter.

The State Department of Education, Division of School Finance calculates the annual funding, including the adequacy amount, and distributes a prorated share bi-monthly to the School District. In transitioning to the Ohio Evidence-Based Model, the gifted, enrichment, technology service support components and the charge off amount are phased in over a five year period. For fiscal year 2011, the East Cleveland City School District estimates \$31,954,000 in adequacy funding. The \$159,000 increase in unrestricted grants-in-aid is due to adjustments to the fiscal year 2010 formula received in fiscal year 2011.

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

The State funding for schools is based on several factors all of which are subject to deliberations and approval of the Ohio General Assembly. School funding beyond fiscal year 2011 will be set as part of the State's biennial budget for fiscal years 2012 and 2013. Due to the economic conditions within the State and the anticipated short fall in tax revenues in the next biennial budget, the level at which the State will fund schools is uncertain. State Foundation revenues for fiscal years 2012 to 2015 are presented at the same funding level as fiscal year 2011. If the State decreases funding for schools in fiscal years 2012 and 2013 and the same level continues through fiscal year 2015, the decrease will have a material effect on this forecast. A decrease in State funding equal to one percent of the School District's foundation revenue would decrease Unrestricted State Grants-in-Aid by \$320,000 for the current fiscal year and each fiscal year thereafter. The cumulative effect on fund balance in fiscal year 2015 is a decrease of \$1,280,000.

Restricted Grants-in-Aid

In fiscal years 2008 and 2009, restricted grants-in-aid consisted of career technologies, bus purchase, parity aid and poverty based aid monies. For fiscal year 2011, the School District expects to receive \$283,000 in career technologies monies and does not anticipate any poverty based assistance or bus purchase allowance monies as they are considered part of basic aid.

C. - Restricted Federal Grants-in-Aid

Restricted Federal grants-in-aid consist of State Fiscal Stabilization Funds and the Education Jobs grant monies. In 2010, Ohio was allocated \$845 million from the American Recovery and Reinvestment Act in State Fiscal Stabilization Funds (SFSF) to help stabilize state and local budgets in order to minimize and avoid reductions in education and other essential services. SFSF for primary and secondary education is distributed to school districts as part of the foundation settlement payments twice a month. The East Cleveland City School District, based on estimates provided by the Department of Education, anticipates \$2,405,000 for fiscal year 2011. These funds have limited restrictions on their use. The School District has chosen to use these funds for teacher salaries and community school tuition. SFSF has not been reauthorized by the State of Ohio and; therefore, SFSF is not included in the five-year forecast beyond fiscal year 2011. Currently, there is no reasonable basis to assume that the State of Ohio will increase State Funding for schools to cover/make up the amount of the SFSF funds distributed to the School Districts.

In 2010, Congress passed and the President has signed legislation that provides \$10 billion in resources to assist local school districts in saving or creating education jobs during fiscal years 2011 and 2012. The Education Jobs grant may be used only for compensation and benefits and other expenses, such as support services, necessary to retain existing employees, to recall or rehire former employees, and to hire new employees, in order to provide early childhood, elementary, or secondary educational and related services. The East Cleveland City School District, based on estimates provided by the Department of Education, anticipates \$889,000 for fiscal year 2011 and \$984,000 for fiscal year 2012. These funds have limited restrictions on their use. The School District has chosen to use these funds in both fiscal years 2011 and fiscal year 2012 for salaries and benefits for teachers.

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D. - Property Tax Allocation

State law grants tax relief in the form of a ten percent reduction in real property tax bills. In addition, a two and one-half percent rollback is granted on residential property taxes. Tax relief is also granted to qualified elderly and disabled homeowners based on their income. Beginning in tax collection year 2008, the State expanded the homestead exemption to allow eligible homeowners to shield the first \$25,000 in market value from taxation. This expanded exemption increased State allocation revenue and decreased property tax revenues by an equal amount. The State reimburses the School District for the loss of real property taxes as a result of the rollback and homestead tax relief programs. Homestead and rollback revenue is forecast to decrease in fiscal years 2012 through 2015 due to the anticipated decrease in assessed valuation caused by the demolition and destruction of condemned and/or abandoned buildings.

In fiscal year 2006, the State began reimbursing the School District for lost revenue due to the phase out of tangible personal property tax. In the first five years, the School District will be fully reimbursed relative to prior law for revenue lost due to the taxable value of reductions through 2013. Beginning in fiscal year 2013, the reimbursements are gradually phased out. The reimbursement will be for the difference between the assessed values under prior law and the assessed values under House Bill 66. This means the School District is only reimbursed for the difference between the amounts that would have been received under the prior law and the amounts actually received as the phase-outs in House Bill 66 are implemented. For the forecast period, the School District anticipates receiving a steady reimbursement for the tangible personal property tax losses until 2014 when the amount begins to decline, due to the phase out of the tangible personal property loss reimbursement beginning in that fiscal year.

Property tax allocation revenues consist of the following:

Revenue Sources	Forecasted				
	Fiscal Year 2011	Fiscal Year 2012	Fiscal Year 2013	Fiscal Year 2014	Fiscal Year 2015
Homestead and Rollback	\$1,168,000	\$1,141,000	\$1,138,000	\$1,134,000	\$1,131,000
Tangible Personal Property Loss Reimbursements	1,498,000	1,570,000	1,570,000	831,000	647,000
Totals	<u>\$2,666,000</u>	<u>\$2,711,000</u>	<u>\$2,708,000</u>	<u>\$1,965,000</u>	<u>\$1,778,000</u>

E. - All Other Revenues

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

The School District receives tuition revenue from other school districts for special education students who are residents of other school districts. The School District also receives a small amount of open enrollment tuition for students from other school districts attending East Cleveland City School District. Tuition and open enrollment revenue is expected to remain consistent throughout the forecast period.

Interest is based on historical investment practices and anticipated rates and cash balances during the forecast period. The School District pools cash from all funds for investment purposes. Investments are restricted by provisions of the Ohio Revised Code and are valued at cost. Following Ohio statutes, the Board of Education has, by resolution, specified the funds to receive an allocation of interest earnings

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with the greatest allocation being to the General Fund. The School District anticipates an increase in interest revenue during fiscal year 2012 and that amount is forecast to remain consistent throughout fiscal years 2013 through 2015.

E-Rate Reimbursement revenues are expected to remain consistent throughout the entire forecast period.

The Medicaid School Program (MSP) began July 1, 2009 and replaced the Community Alternative Funding Source (CAFS) program which ended with the School District receiving its last installment during fiscal year 2009. This program is a collaborative effort between the Ohio Department of Job and Family Services as the State Medicaid agency and the Ohio Department of Education as the agency responsible for assuring that the Individuals with Disabilities Education Act is delivering health related services to eligible special needs students. Due to the settlement of a class action lawsuit involving the CAFS program, the School District is forecasting to receive \$143,000 in fiscal year 2011. The School District anticipates receiving \$23,000 throughout the remaining forecast period.

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

Other revenues include rentals, contributions and donations, payments in lieu of taxes, indirect costs and auditor adjustments. Other revenue is anticipated to remain consistent throughout the entire forecast period.

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

All other revenues consist of the following:

Revenue Sources	Forecast				
	Fiscal Year 2011	Fiscal Year 2012	Fiscal Year 2013	Fiscal Year 2014	Fiscal Year 2015
Tuition and Open Enrollment	\$4,292,000	\$4,292,000	\$4,292,000	\$4,292,000	\$4,292,000
Interest on Investments	212,000	376,000	376,000	376,000	376,000
Classroom Materials and Fees	3,000	3,000	3,000	3,000	3,000
E-Rate Reimbursements	331,000	331,000	331,000	331,000	331,000
MSP	143,000	23,000	23,000	23,000	23,000
ROTC	46,000	46,000	46,000	46,000	46,000
Other Revenue	398,000	267,000	267,000	267,000	267,000
Refund of Prior Year Expenditures	35,000	35,000	35,000	35,000	35,000
Totals	<u>\$5,460,000</u>	<u>\$5,373,000</u>	<u>\$5,373,000</u>	<u>\$5,373,000</u>	<u>\$5,373,000</u>

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F. - Other Financing Sources

Advances In

Presented below is a comparison of advances for fiscal years 2011 through 2015.

<u>Fiscal Year</u>	<u>Outstanding Advances Carried over From the Prior Fiscal Year</u>	<u>New Advances to Other Funds (Advances Out)</u>	<u>Repayment of Advances (Advances In)</u>	<u>Outstanding Advances Carried Forward</u>
2011	\$6,403,000	\$11,348,000	\$10,829,000	\$6,922,000
2012	6,922,000	5,539,000	12,461,000	0
2013	0	5,539,000	5,539,000	0
2014	0	5,539,000	5,539,000	0
2015	0	5,539,000	5,539,000	0

The general fund advances cash to various grant funds in order to prevent the grant funds from ending the year with a deficit balance. The School District anticipates the return of those advances for the remaining forecast period.

Note 7 - Significant Assumptions for Expenditures and Other Financing Uses

A. - Personal Services

Personal services expenditures represent the salaries and wages paid to certified employees, classified and administrative staff, substitutes, tutors, student workers and board members. In addition to regular salaries, it includes payment for supplemental contracts, and severance pay. All employees receive their compensation on a bi-weekly basis. Administrative and non-bargaining unit salaries are set by the Board of Education. Staffing levels for the last three fiscal years and the current fiscal year are displayed in the chart below. The positions shown are full time equivalents.

	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>
General Fund:				
Certified	267	259	258	245
Classified	107	106	112	114
Total General Fund:	374	365	370	359
Other Funds:				
Certified	20	9	9	43
Classified	12	19	19	9
Total Other Funds:	32	28	28	52
Totals	406	393	398	411

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Certified (teaching) staff salaries are based on a negotiated contract which includes base and step increases and educational incentives. The current contract covers the period July 1, 2009 through August 17, 2012, and allows for a three percent increase in the base salary in fiscal years 2011 and 2012. The forecast includes no base increase for fiscal years 2013, 2014 and 2015 and step increases averaging 2.06 percent for each year of the forecast period. The step increases from the certified contract range from 5.0 to 6.7 percent although only 52 percent of the employees are eligible for the step increase so the average of those eligible of the total salaries is 2.06 percent.

Classified salaries are based on a negotiated contract which includes base and step increases. The contract for classified staff covers the period July 1, 2010 through June 30, 2013. The contract allows for three percent increases in the base salary as well as an average step increase of 2.06 percent in fiscal years 2011, 2012 and 2013. The forecast includes step increases that range from 2.7 to 3.6 percent averaging 2.06 percent for each year of the forecast period because not all employees are eligible for the step increase and no base increase for fiscal years 2014 and 2015.

In fiscal years 2013 through 2015, the School District has forecasted no base increase each year and an average cost of step increases of 2.06 percent for the certified employees. The classified employees are forecasting no base increase for either 2014 or 2015 and an average cost of step increases of 2.06 percent for the classified employees. These agreements are subject to negotiations and approval by the Board of Education. The likelihood of achieving no base increases for fiscal years 2013 through 2015 for certified and 2014 and 2015 for classified is unknown and the realization of the forecast is particularly sensitive to any increase in the base salaries. Each additional one percent increase, would increase certified salaries and benefits by \$230,000, in fiscal year 2013, \$232,000 and \$58,000, for certified and classified employees respectively, in fiscal year 2014 and \$235,000 and \$59,000, respectively, in fiscal year 2015 and decrease the fund balance each fiscal year by the same amount. The cumulative effect on fund balance in fiscal year 2015 is a decrease of \$814,000.

Staffing levels are forecasted to remain consistent throughout the forecast period. The employees paid with the State Fiscal Stabilization and the Education Jobs grants are forecast to remain at the School District throughout the forecast period. Actual increases or decreases will only occur after the Superintendent recommends and the Board of Education approves any staffing increases or decreases.

Substitute salaries for certified and classified employees are expected to decrease in fiscal year 2011 as a result of fewer substitutes needed. For the remaining forecasted period, substitute salaries will remain relatively consistent.

Supplemental salaries are expected to increase in fiscal years 2011 and 2012 due to an increase of three percent to the base supplemental salary. For the remaining forecasted period, supplemental salaries will remain consistent with no increase forecasted to the base supplemental salary.

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

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Other salaries and wages include retroactive pay after the contracts were settled, mentor pay, optional day pays, class coverage pay, student workers and board compensation. Other salaries and wages are expected to be \$1,286,000 during fiscal year 2011 due to a retroactive pay for both certified and classified employees. Each remaining year of the forecast is expected to return to the levels of the prior fiscal years.

Presented below is a comparison of salaries and wages for fiscal years 2011 through 2015.

	Forecasted				
	Fiscal Year	Fiscal Year	Fiscal Year	Fiscal Year	Fiscal Year
	2011	2012	2013	2014	2015
Certified Salaries	\$16,842,000	\$17,709,000	\$18,074,000	\$18,446,000	\$18,826,000
Classified Salaries	4,793,000	5,032,000	5,283,000	5,391,000	5,500,000
Substitute Salaries	1,069,000	1,069,000	1,069,000	1,069,000	1,069,000
Supplemental Salaries	282,000	290,000	290,000	290,000	290,000
Severance Pay	113,000	125,000	147,000	113,000	113,000
Other Salaries and Wages	1,286,000	516,000	516,000	516,000	516,000
Totals	<u>\$24,385,000</u>	<u>\$24,741,000</u>	<u>\$25,379,000</u>	<u>\$25,825,000</u>	<u>\$26,314,000</u>

B. – Employees’ Retirement/Insurance Benefits

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

Retirement costs are based on the employers’ contribution rate of 14 percent of salaries for STRS and SERS and an additional SERS surcharge levied to fund health care benefits for employees earning less than a minimum salary amount. Payments are made based upon estimated salary and wages for each fiscal year. Adjustments resulting from differences between the estimated and actual expenditures are prorated over the next calendar year. The School District pays the employee retirement contributions for the superintendent and treasurer. Retirement costs are forecasted to increase based on the changes in forecasted salaries over the next five fiscal years.

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

Health care costs are based on a number of employees participating in the program and the type of coverage (single or family) provided to each employee. Monthly charges per person for single and family participation in the program are recommended by and agreed to by the various insurance companies and by the Board of Education. The health care program includes medical, prescription drug, dental care and vision. Health care rates are fixed for a twelve month period from October through September. The monthly rates for single or family health care benefits are anticipated to increase 10 percent each year of the forecasted period with fiscal year 2011 at \$1,660.79 for family members, \$1,111.98 for two person

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members and \$559.99 for single members. All health care coverage is now through Anthem Blue Cross Blue Shield Medical. Health care costs are forecasted to increase marginally throughout the forecast period.

Life insurance premiums are based on the coverage amount and the anticipated number of employees participating in the program.

Workers' compensation is based on the School District's assigned rate and the amount of wages paid in a calendar year. Premiums are paid in the following calendar year. The School District may choose to pay the entire premium in May or 45 percent in May and 55 percent in September. The School District anticipates paying the entire premium in May as in prior fiscal years.

Upon retirement, the School District offers its certified employees severance pay of 50 percent of their unused sick leave up to a maximum of 160 days paid, if notification of retirement is given to the School District by March 31. The severance pay is reduced to 25 percent if notification of retirement is received after March 31. Classified employees are entitled to severance pay of 35 percent of their unused sick leave, up to a maximum of 103 days paid. Severance pay included in the salaries section of this forecast includes only those employees eligible to retire who are below 55 years of age. Severance pay for employees eligible for retirement and age 55 or more, is paid into the Valic plan. The Valic plan is classified as an employee benefit. Severance payments to Valic are anticipated to increase during fiscal years 2011 and 2012 and fiscal years 2013 through 2015 are forecast to be consistent with the fiscal years prior to fiscal year 2011.

Presented below is a comparison for the forecasted period.

	Forecast				
	Fiscal Year 2011	Fiscal Year 2012	Fiscal Year 2013	Fiscal Year 2014	Fiscal Year 2015
Employer's Retirement	\$3,461,000	\$3,565,000	\$3,607,000	\$3,679,000	\$3,748,000
Health Care/Life Insurance	4,147,000	4,560,000	5,014,000	5,513,000	6,062,000
Workers' Compensation	367,000	383,000	390,000	399,000	406,000
Medicare	244,000	252,000	271,000	276,000	294,000
Severance Pay/Valic Plan	870,000	981,000	356,000	356,000	356,000
Total	<u>\$9,089,000</u>	<u>\$9,741,000</u>	<u>\$9,638,000</u>	<u>\$10,223,000</u>	<u>\$10,866,000</u>

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C. - Purchased Services

Presented below is a comparison of purchased services for fiscal years 2011 through 2015.

	Forecasted				
	Fiscal Year 2011	Fiscal Year 2012	Fiscal Year 2013	Fiscal Year 2014	Fiscal Year 2015
Professional and Technical Services	\$2,077,000	\$1,995,000	\$2,059,000	\$2,011,000	\$2,083,000
Property Services	1,010,000	1,061,000	1,025,000	1,156,000	1,189,000
Travel and Meeting Expenses	37,000	59,000	59,000	59,000	59,000
Communication Cost	429,000	446,000	495,000	480,000	499,000
Utility Services	1,182,000	950,000	988,000	1,027,000	1,068,000
Trade Services	12,000	12,000	13,000	13,000	14,000
Tuition Payments	9,101,000	9,291,000	9,489,000	9,695,000	9,909,000
Pupil Transportation	697,000	697,000	697,000	697,000	697,000
Other Purchased Services	176,000	176,000	176,000	176,000	176,000
Total	<u>\$14,721,000</u>	<u>\$14,687,000</u>	<u>\$15,001,000</u>	<u>\$15,314,000</u>	<u>\$15,694,000</u>

Property services will increase due to the School District continuing to make necessary repairs and upkeep of buildings and an increase in the cost of building security along with a slight increase for inflation. Communication costs will increase as well due to a slight increase for inflation. Utility services are forecasted to increase due to increased usage and the anticipated increase in costs. The remaining forecast years are expected to have slight increases due to inflationary costs.

Tuition payments include open enrollment and community school tuition. In fiscal year 2011 through 2015, the per pupil foundation amount is not expected to increase. The increase in the tuition amounts during the remaining forecasted periods is due to the anticipated increase in students from the School District attending community schools and open enrollment. Pupil transportation is expected to remain consistent over the forecast period.

D. - Supplies and Materials

Presented below is a comparison of supplies and materials for fiscal years 2011 through 2015.

	Forecasted				
	Fiscal Year 2011	Fiscal Year 2012	Fiscal Year 2013	Fiscal Year 2014	Fiscal Year 2015
General Supplies, Library Books and Periodicals	\$679,000	\$619,000	\$635,000	\$702,000	\$696,000
Operations, Maintenance and Repair	473,000	488,000	513,000	521,000	538,000
Textbooks	686,000	715,000	743,000	773,000	804,000
Total	<u>\$1,838,000</u>	<u>\$1,822,000</u>	<u>\$1,891,000</u>	<u>\$1,996,000</u>	<u>\$2,038,000</u>

Expenditures for supplies and materials are forecasted to increase due to inflation. The School District anticipates the replacement of many out-dated textbooks throughout the forecast period.

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E. - Capital Outlay

The acquisition or construction of property, plant and equipment acquired or used for instructional and support services is recorded as capital outlay. Capital outlay expenditures consist of bus replacements and new equipment purchases for the forecast period.

G. - Other Objects

Other object expenditures consist of dues and fees, insurance and awards. Expenditures in this area are forecast to remain consistent throughout the forecast period. The largest expenditure is County Fiscal Officer delinquent land tax deductions and fees.

H. - Operating Advances/Transfers Out

The School District anticipates transfers out of \$364,000 each fiscal year of the forecast period to help cover operating costs in the athletics and student activities funds.

The School District is forecasting advances out each year of the forecast period. \$11,348,000 is forecast in fiscal year 2011 due to the timing of revenues in the grant funds and \$5,539,000 for the rest of the forecast period. The general fund provides temporary funding of the program until the grant dollars are received.

Note 8 - Encumbrances

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

Encumbrances for purchased services, supplies and materials, capital outlay and other objects have consistently been approximately \$2,600,000, so that amount is expected to remain consistent each fiscal year of the forecast period.

Note 9 - Reservations of Fund Balance

The School District is required by State statute to annually set aside in the general fund three percent of certain revenues for the purchase of textbooks and other instructional materials and an equal amount for capital improvements and repairs. Amounts not spent by year-end or offset by similarly restricted resources received during the year must be held in cash at year-end and carried forward to be used for the same purposes in future years.

A. - Textbooks and Instructional Materials Set-Aside

The set aside amount required is approximately \$509,000 for fiscal year 2011. The School District anticipates \$710,000 in qualified expenditures in fiscal year 2011. Therefore, no reserve amount is anticipated for fiscal year 2011. Effective July 1, 2011, the textbook set aside is no longer required and has been removed from existing law.

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B. – Capital Acquisition and Improvements Set-Aside

The set aside amount is approximately \$509,000 each fiscal year. Annual offsets are anticipated from a permanent improvement and classroom facilities maintenance levies and general obligation bond proceeds. The School District anticipates \$738,000 in qualified expenditures in fiscal year 2011 and the qualified expenditures to increase during the remainder of the forecast period. Therefore, no reserve amount is anticipated for the forecast period.

C. – Bus Purchases

At June 30, 2010, the School District had \$82,000 in bus monies. The bus purchase allowance is no longer funded by the State. The School District anticipates purchasing new buses in the forecast period thereby eliminating the reserve during the forecast period.

Note 10 - Levies

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

Note 11 – Pending Litigation

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

Note 12 – Other Funds

The School District has numerous other funds that account for resources that are restricted for specific purposes.

During fiscal years 2010 and 2011, the School District received grants for Title II-D and Title I through the American Recovery and Reinvestment Act. The School District will not receive this funding in fiscal years 2012 through 2015. Those employees paid with these monies are forecast to remain at the School District with expenditures for these employees paid out of the general fund.

The School District entered into a project agreement with the Ohio School Facilities Commission to renovate three schools, built four schools and demolish one school. The Classroom Facilities Capital Projects fund accounts for the grant monies as well as the bond proceeds that were issued by the School District to pay for their proportionate share of the project. The fund is forecasted to decrease each year of the forecast period as the School District continues to renovate the buildings.

The School District uses the Food Service Fund to account for the lunch charges and operating grants restricted to the food service operations of the School District. This fund is anticipated to be self-sufficient during the forecast period.

The remaining funds are anticipated to have sufficient resources to meet their obligations during the forecasted period. There are certain funds that annually rely upon advances from the General Fund to meet their obligations. These advances are addressed in Note 7H.

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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**