



Dave Yost • Auditor of State



**East Cleveland City School District**  
*Basic Financial Statements*  
*For the Fiscal Year Ended June 30, 2009*  
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# Dave Yost • Auditor of State

## INDEPENDENT ACCOUNTANTS' REPORT

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

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the East Cleveland City School District, Cuyahoga County, Ohio (the District), as of and for the year ended June 30, 2009 which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the District's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

As described in Note 3 to the financial statements, the District restated the July 1, 2008 governmental activities net assets and fund balances and the business-type activities net assets and fund balances from the cash basis reporting to reporting in conformity with accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the East Cleveland City School District, Cuyahoga County, Ohio, as of June 30, 2009, and the respective changes in financial position and where applicable, cash flows, thereof and the budgetary comparison for the General Fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated May 6, 2011, on our consideration of the District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. While we did not opine on the internal control over financial reporting or on compliance, that report describes the scope of our testing of internal control over financial reporting and compliance and the results of that testing. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*. You should read it in conjunction with this report in assessing the results of our audit.

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

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



**Dave Yost**  
Auditor of State

May 6, 2011

**East Cleveland City School District**  
*Management's Discussion and Analysis*  
*For the Fiscal Year Ended June 30, 2009*  
*Unaudited*

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The discussion and analysis of the East Cleveland City School District's (the School District) financial performance provides an overall review of the School District's financial activities for the fiscal year ended June 30, 2009. The intent of this discussion and analysis is to look at the School District's financial performance as a whole; readers should also review the basic financial statements as well as the notes to the basic financial statements to enhance their understanding of the School District's financial performance.

### **Financial Highlights**

Key financial highlights for fiscal year 2009 are as follows:

- Net assets increased over fiscal year 2008.
- The School District is in the final stages of the Ohio School Facilities Construction program. All buildings in the School District have been replaced.
- For fiscal year 2009, the School District saw an increase in current and other assets and a decrease in current liabilities. The School District continues to monitor its spending.
- General revenues accounted for the majority of all revenues. Program specific revenues in the form of charges for services and sales, operating grants and contributions and capital grants accounted for 29.1 percent of total revenues.
- Overall expenses increased during fiscal year 2009 due to negotiated salary agreement increases. Only \$19,262,753 of these expenses was offset by program specific charges for services and sales, grants and contributions. General revenues related to governmental activities were adequate to provide for the amounts not offset by program revenues.
- The general fund's fund balance increased in 2009.

### **Using this Annual Financial Report**

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

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

**East Cleveland City School District**  
*Management's Discussion and Analysis*  
*For the Fiscal Year Ended June 30, 2009*  
*Unaudited*

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## **Reporting on the District as a Whole**

### *Statement of Net Assets and the Statement of Activities*

The analysis of the School District as a whole begins on page 6. The view of the School District as a whole looks at all financial transactions and asks the questions, "Are we in a better financial position this year than last?" and "Why" or "Why not". The Statement of Net Assets and the Statement of Activities provide the basis for answering these questions. The statements include *all assets and liabilities* using the *accrual basis of accounting* similar to the accounting used by most private-sector companies. This basis of accounting recognizes all of the current year's revenues and expenses regardless of when cash is received or paid.

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

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

## **Reporting the School District's Most Significant Funds**

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

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

**Fiduciary Funds** The School District has only one type of fiduciary funds, agency funds. The agency funds are used to account for resources held for the benefit of parties outside the School District. The agency funds are not reflected on the government-wide statements because the resources from that fund are not available to support the School District's programs.



**East Cleveland City School District**  
*Management's Discussion and Analysis*  
*For the Fiscal Year Ended June 30, 2009*  
*Unaudited*

**The District as a Whole**

Recall that the *Statement of Net Assets* provides the perspective of the School District as a whole, showing assets, liabilities and the difference between them (net assets). Table 1 provides a summary of the School District's net assets for fiscal year 2009 compared to fiscal year 2008:

	Net Assets		
	2009	2008	Change
<b>Assets</b>			
Current and Other Assets	\$59,645,571	\$55,622,613	\$4,022,958
Capital Assets, Net	87,705,655	87,776,612	(70,957)
<i>Total Assets</i>	<u>147,351,226</u>	<u>143,399,225</u>	<u>3,952,001</u>
<b>Liabilities</b>			
Current and Other Liabilities	11,899,281	13,278,579	(1,379,298)
Long-Term Liabilities:			
Due Within One Year	5,091,226	4,577,257	513,969
Due in More than One Year	8,793,406	9,242,703	(449,297)
<i>Total Liabilities</i>	<u>25,783,913</u>	<u>27,098,539</u>	<u>(1,314,626)</u>
<b>Net Assets</b>			
Invested in Capital Assets, Net of Debt	81,467,172	81,024,708	442,464
Restricted:			
Capital Projects	2,003,876	4,002,765	(1,998,889)
Debt Service	2,576,768	2,321,034	255,734
Other Purposes	3,690,380	910,812	2,779,568
Unrestricted	31,829,117	28,041,367	3,787,750
<i>Total</i>	<u>\$121,567,313</u>	<u>\$116,300,686</u>	<u>\$5,266,627</u>

The increase in assets was predominantly due to an increase in cash, and taxes receivable.

Table 2 shows the changes in net assets for the year ended June 30, 2009. Since this is the first year the School District has prepared financial statements following GASB 34, revenue and expense comparisons to fiscal year 2008 are not available. In future years, when prior year information is available, a comparative analysis of government-wide data will be presented.

**East Cleveland City School District**  
*Management's Discussion and Analysis*  
*For the Fiscal Year Ended June 30, 2009*  
*Unaudited*

**Table 2**  
 Change in Net Assets  
 Governmental Activities

	2009
<b>Revenues</b>	
Program Revenues:	
Charges for Services and Sales	\$3,966,608
Operating Grants and Contributions	15,290,299
Capital Grants and Contributions	5,846
<i>Total Program Revenues</i>	<i>19,262,753</i>
General Revenues:	
Property Taxes	11,274,579
Grants and Entitlements	34,561,314
Investment Earnings	516,993
Miscellaneous	571,027
<i>Total General Revenues</i>	<i>46,923,913</i>
<b>Total Revenues</b>	<b>66,186,666</b>
<b>Program Expenses</b>	
Instruction	35,932,805
Support Services:	
Pupils	2,777,960
Instructional Staff	4,372,890
Board of Education	45,672
Administration	4,931,575
Fiscal	1,984,768
Business	313,552
Operation and Maintenance of Plant	4,382,508
Pupil Transportation	1,288,473
Central	2,248,125
Operation of Non-Instructional Services:	
Food Services Operations	1,808,898
Other Non-Instructional Services	37,682
Extracurricular Activities	438,574
Interest and Fiscal Charges	356,557
<b>Total Program Expenses</b>	<b>60,920,039</b>
<i>Increase in Net Assets</i>	<i>5,266,627</i>
<i>Net Assets Beginning of Year</i>	<i>116,300,686</i>
<i>Net Assets End of Year</i>	<i>\$121,567,313</i>

**East Cleveland City School District**  
*Management's Discussion and Analysis*  
*For the Fiscal Year Ended June 30, 2009*  
*Unaudited*

**Governmental Activities**

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

The main sources of revenue for the School District are the State of Ohio foundation payments and grants. Although the School District relies upon local property taxes to support its operations, the School District does actively solicit and receive additional grant and entitlement funds to help offset some operating costs. With this in mind, the School District hasn't placed a new operating levy before the voters in over 10 years. Grants, entitlements and contributions made up 75.33 percent of total revenues while property taxes only make up 17.03 percent of total revenues in the School District for fiscal year 2009. Charges for services, investments and miscellaneous revenue made up the remainder of total revenues.

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

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

**Table 3**  
 Net Cost of Governmental Activities

	Total Cost of Services 2009	Net Cost of Services 2009
	2009	2009
Instruction	\$35,932,805	(\$24,849,697)
Support Services:		
Pupils	2,777,960	(2,330,160)
Instructional Staff	4,372,890	470,358
Board of Education	45,672	(41,799)
Administration	4,931,575	(4,597,962)
Fiscal	1,984,768	(1,863,430)
Business	313,552	(288,709)
Operation and Maintenance of Plant	4,382,508	(3,919,349)
Pupil Transportation	1,288,473	(1,191,647)
Central	2,248,125	(2,039,746)
Operation of Non-Instructional Services:		
Food Service Operations	1,808,898	(228,390)
Other Non-Instructional Services	37,682	(37,682)
Extracurricular Activities	438,574	(382,516)
Interest and Fiscal Charges	356,557	(356,557)
<i>Total</i>	\$60,920,039	(\$41,657,286)

**East Cleveland City School District**  
*Management's Discussion and Analysis*  
*For the Fiscal Year Ended June 30, 2009*  
*Unaudited*

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The dependence on tax revenues and State subsidies for governmental activities is apparent. 69.16 percent of instructional activities are supported through taxes and other general revenues. For all governmental activities, general revenue support is over 68.38 percent.

**The School District's Funds**

Information about the School District's governmental funds starts on page 13. These funds are accounted for using the modified accrual basis of accounting. All governmental funds had total revenues of \$63,892,457 and expenditures of \$60,767,250. The net change in fund balance for the year in the general fund was an increase of \$3,024,606. The net change in fund balances for the year in all other governmental funds was an increase of \$100,601.

**General Fund Budgeting Highlights**

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

During the course of fiscal year 2009, the School District amended its general fund budget several times, but no change was significant. The general fund final budget and actual revenue amount of \$48,346,154 is \$1,393,051 higher than the original budget amount of \$46,953,103. The increase was due to the higher than anticipated collection of real estate tax revenues. Actual expenditures of \$47,103,969 are \$3,675,031 or 7.24 percent less than the final budget amount of \$50,779,000. The School District ended the fiscal year with a fund balance of \$26,893,411, an increase of \$3,030,019 from fiscal year 2008, and \$3,675,031 higher than what was estimated.

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

**East Cleveland City School District**  
*Management's Discussion and Analysis*  
*For the Fiscal Year Ended June 30, 2009*  
*Unaudited*

**Capital Assets and Debt Administration**

*Capital Assets*

Table 4 shows fiscal year 2009 balances compared to fiscal year 2008.

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

	Governmental Activities	
	2009	2008
Land	\$2,389,900	\$2,389,900
Land Improvements	1,819,700	1,942,443
Buildings and Improvements	80,621,260	80,549,517
Furniture and Equipment	2,379,209	2,281,720
Vehicles	96,668	120,861
Textbooks	398,918	492,171
	\$87,705,655	\$87,776,612

In 1999, voters in the School District approved the issuance of school improvement bonds. The School District is currently in the final phases of replacing all buildings in the School District. For additional information on capital assets, see Note 11 of the notes to the basic financial statements.

For fiscal year 2009, Ohio law required school districts to expend or otherwise reserve three percent of qualifying revenues for the purpose of capital improvements and an additional three percent for textbooks and instructional materials. For fiscal year 2009, this amounted to \$583,574 for each purpose. The School District had qualifying disbursements exceeding these requirements. See Note 20 for additional set-aside information.

***Debt***

Table 5 summarizes the bonds outstanding.

**Table 5**  
 Outstanding Debt at June 30

	Governmental Activities	
	2009	2008
General Obligation Bonds:		
1999 School Improvement Bonds	\$0	\$519,661
1999 Capital Appreciation Bonds	1,390,122	1,293,328
2007 School Improvement Refunding Bonds	5,802,059	5,815,816
Totals	\$7,192,181	\$7,628,805

**East Cleveland City School District**  
*Management's Discussion and Analysis*  
*For the Fiscal Year Ended June 30, 2009*  
*Unaudited*

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

The School District's overall debt margin was \$19,761,389 with an unvoted debt margin of \$277,273. For additional information on long-term obligations, see Note 19 of the notes to the basic financial statements.

***Current Financial Related Activities***

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

Tangible personal property tax assessments decreased 25 percent for fiscal year 2008. Total assessed value in fiscal year 2009 decreased from the prior fiscal year, due to decreasing personal property tax assessments. The School District does not anticipate any meaningful growth in revenue as a result of any of the changes in taxes. Based on these factors, the Board of Education and the administration of the School District must maintain careful financial planning and prudent fiscal management in order to preserve the financial stability of the School District.

***Challenges and Opportunities***

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

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

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

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

**Contacting the School District's Financial Management**

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

**East Cleveland City School District**

*Statement of Net Assets*

*June 30, 2009*

	<u>Governmental Activities</u>
<b>Assets</b>	
Equity in Pooled Cash and Cash Equivalents	\$39,489,173
Cash and Cash Equivalents in Segregated Accounts	5,061
Accounts Receivable	42,495
Intergovernmental Receivable	1,580,674
Prepaid Items	424
Materials and Supplies Inventory	10,490
Property Taxes Receivable	18,288,962
Deferred Charges	228,292
Nondepreciable Capital Assets	2,389,900
Depreciable Capital Assets	<u>85,315,755</u>
<i>Total Assets</i>	<u>147,351,226</u>
<b>Liabilities</b>	
Accounts Payable	380,888
Accrued Wages and Benefits Payable	1,863,723
Intergovernmental Payable	1,372,805
Deferred Revenue	8,236,740
Accrued Interest Payable	45,125
Long-Term Liabilities:	
Due Within One Year	5,091,226
Due in More Than One Year	<u>8,793,406</u>
<i>Total Liabilities</i>	<u>25,783,913</u>
<b>Net Assets</b>	
Invested in Capital Assets, Net of Related Debt	81,467,172
Restricted for:	
Capital Projects	2,003,876
Debt Service	2,576,768
Food Service	909,263
Poverty Aid	649,026
Student Services	1,176,430
Other Purposes	955,661
Unrestricted	<u>31,829,117</u>
<i>Total Net Assets</i>	<u><u>\$121,567,313</u></u>

See accompanying notes to the basic financial statements

**East Cleveland City School District**  
*Statement of Activities*  
For the Fiscal Year Ended June 30, 2009

	Program Revenues			Net (Expense)	
	Expenses	Charges for Services and Sales	Operating Grants and Contributions	Revenue and Changes in Net Assets	
<b>Governmental Activities</b>			Capital Grants and Contributions	Governmental Activities	
Instruction:					
Regular	\$18,305,425	\$1,242,776	\$4,049,651	\$0	(\$13,012,998)
Special	10,814,594	605,051	4,518,872	0	(5,690,671)
Vocational	1,621,437	127,548	0	0	(1,493,889)
Adult/Continuing	72,691	0	94,451	0	21,760
Student Intervention Services	5,118,658	431,406	13,353	0	(4,673,899)
Support Services:					
Pupil	2,777,960	184,343	263,457	0	(2,330,160)
Instructional Staff	4,372,890	81,132	4,762,116	0	470,358
Board of Education	45,672	3,873	0	0	(41,799)
Administration	4,931,575	333,613	0	0	(4,597,962)
Fiscal	1,984,768	121,338	0	0	(1,863,430)
Business	313,552	24,843	0	0	(288,709)
Operation and Maintenance of Plant	4,382,508	386,050	71,263	5,846	(3,919,349)
Pupil Transportation	1,288,473	96,826	0	0	(1,191,647)
Central	2,248,125	173,803	34,576	0	(2,039,746)
Operation of Non-Instructional Services:					
Food Service Operations	1,808,898	98,998	1,481,510	0	(228,390)
Other Non-Instructional Services	37,682	0	0	0	(37,682)
Extracurricular Activities	438,574	55,008	1,050	0	(382,516)
Interest and Fiscal Charges	356,557	0	0	0	(356,557)
<i>Total Governmental Activities</i>	<u>\$60,920,039</u>	<u>\$3,966,608</u>	<u>\$15,290,299</u>	<u>\$5,846</u>	<u>(41,657,286)</u>
<b>General Revenues</b>					
Property Taxes Levied for:					
General Purposes					10,182,755
Debt Service					912,903
Capital Outlay					178,921
Grants and Entitlements not Restricted to Specific Programs					34,561,314
Investment Earnings					516,993
Miscellaneous					571,027
<i>Total General Revenues</i>					<u>46,923,913</u>
Change in Net Assets					5,266,627
<i>Net Assets Beginning of Year - Restated (See Note 3)</i>					<u>116,300,686</u>
<i>Net Assets End of Year</i>					<u>\$121,567,313</u>

See accompanying notes to the basic financial statements



**East Cleveland City School District**

*Balance Sheet*

*Governmental Funds*

*June 30, 2009*

	<u>General</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
<b>Assets</b>			
Equity in Pooled Cash and Cash Equivalents	\$29,399,221	\$10,089,952	\$39,489,173
Cash and Cash Equivalents in Segregated Accounts	2,793	2,268	5,061
Accounts Receivable	336	42,159	42,495
Intergovernmental Receivable	33,464	1,547,210	1,580,674
Prepaid Items	424	0	424
Materials and Supplies Inventory	0	10,490	10,490
Interfund Receivable	2,106,820	0	2,106,820
Property Taxes Receivable	16,557,187	1,731,775	18,288,962
<i>Total Assets</i>	<u>\$48,100,245</u>	<u>\$13,423,854</u>	<u>\$61,524,099</u>
<b>Liabilities and Fund Balances</b>			
<b>Liabilities</b>			
Accounts Payable	\$81,995	\$298,893	\$380,888
Accrued Wages and Benefits Payable	1,514,582	349,141	1,863,723
Intergovernmental Payable	1,046,505	326,300	1,372,805
Interfund Payable	0	2,106,820	2,106,820
Deferred Revenue	15,242,789	2,866,904	18,109,693
<i>Total Liabilities</i>	<u>17,885,871</u>	<u>5,948,058</u>	<u>23,833,929</u>
<b>Fund Balances</b>			
Reserved for Encumbrances	2,228,250	2,032,793	4,261,043
Reserved for Property Taxes	1,298,460	144,273	1,442,733
Unreserved, Undesignated Reported in:			
General Fund	26,687,664	0	26,687,664
Special Revenue Funds	0	2,523,482	2,523,482
Debt Service Fund	0	1,768,387	1,768,387
Capital Projects Funds	0	1,006,861	1,006,861
<i>Total Fund Balances</i>	<u>30,214,374</u>	<u>7,475,796</u>	<u>37,690,170</u>
<i>Total Liabilities and Fund Balances</i>	<u>\$48,100,245</u>	<u>\$13,423,854</u>	<u>\$61,524,099</u>

See accompanying notes to the basic financial statements

**East Cleveland City School District**  
*Reconciliation of Total Governmental Fund Balances to  
 Net Assets of Governmental Activities  
 June 30, 2009*

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<b>Total Governmental Funds Balances</b>	\$37,690,170
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*Amounts reported for governmental activities in the  
 statement of net assets are different because*

Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.	87,705,655
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Other long-term assets are not available to pay for current-period expenditures and therefore are deferred in the funds:

Delinquent Property Taxes	8,592,880	
Grants	1,280,073	

Total	9,872,953
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Bond issuance costs will be amortized over the life of the bonds on the statement of net assets.	228,292
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In the statement of activities, interest is accrued on outstanding bonds, whereas in governmental funds, an interest expenditure is reported when due.	(45,125)
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Long-term liabilities are not due and payable in the current period and therefore are not reported in the funds:

General Obligation Bonds	(5,645,000)	
Capital Appreciation Bonds	(1,390,122)	
Bond Premium	(361,955)	
Accounting Loss	204,896	
Compensated Absences	(6,692,451)	

Total	(13,884,632)
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<i>Net Assets of Governmental Activities</i>	\$121,567,313
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See accompanying notes to the basic financial statements

**East Cleveland City School District**  
*Statement of Revenues, Expenditures and Changes in Fund Balances*  
*Governmental Funds*  
*For the Fiscal Year Ended June 30, 2009*

	General	Other Governmental Funds	Total Governmental Funds
<b>Revenues</b>			
Property Taxes	\$8,874,815	\$943,661	\$9,818,476
Intergovernmental	34,430,877	14,284,468	48,715,345
Interest	428,413	88,580	516,993
Charges for Services	0	98,998	98,998
Tuition and Fees	3,835,721	0	3,835,721
Rentals	2,222	0	2,222
Extracurricular Activities	0	29,667	29,667
Contributions and Donations	208,652	95,356	304,008
Miscellaneous	501,598	69,429	571,027
<i>Total Revenues</i>	<u>48,282,298</u>	<u>15,610,159</u>	<u>63,892,457</u>
<b>Expenditures</b>			
Current:			
Instruction:			
Regular	14,538,896	2,402,634	16,941,530
Special	7,109,378	3,186,742	10,296,120
Vocational	1,499,744	21,599	1,521,343
Adult/Continuing	0	72,691	72,691
Student Intervention Services	5,087,009	31,649	5,118,658
Support Services:			
Pupil	2,159,738	463,609	2,623,347
Instructional Staff	953,249	3,278,901	4,232,150
Board of Education	45,672	0	45,672
Administration	3,817,054	756,139	4,573,193
Fiscal	1,408,792	457,378	1,866,170
Business	284,549	0	284,549
Operation and Maintenance of Plant	4,510,680	241,205	4,751,885
Pupil Transportation	1,136,008	54,866	1,190,874
Central	2,031,333	37,389	2,068,722
Operation of Non-Instructional Services:			
Food Service Operations	0	1,653,037	1,653,037
Other Non-Instructional Services	0	37,682	37,682
Extracurricular Activities	298,811	124,239	423,050
Capital Outlay	0	2,290,556	2,290,556
Debt Service:			
Principal Retirement	0	495,000	495,000
Interest and Fiscal Charges	0	281,021	281,021
<i>Total Expenditures</i>	<u>44,880,913</u>	<u>15,886,337</u>	<u>60,767,250</u>
<i>Excess of Revenues Over (Under) Expenditures</i>	<u>3,401,385</u>	<u>(276,178)</u>	<u>3,125,207</u>
<b>Other Financing Sources (Uses)</b>			
Transfers In	0	376,779	376,779
Transfers Out	(376,779)	0	(376,779)
<i>Total Other Financing Sources (Uses)</i>	<u>(376,779)</u>	<u>376,779</u>	<u>0</u>
<i>Net Change in Fund Balances</i>	3,024,606	100,601	3,125,207
<i>Fund Balances Beginning of Year</i>	<u>27,189,768</u>	<u>7,375,195</u>	<u>34,564,963</u>
<i>Fund Balances End of Year</i>	<u>\$30,214,374</u>	<u>\$7,475,796</u>	<u>\$37,690,170</u>

See accompanying notes to the basic financial statements

**East Cleveland City School District**  
*Reconciliation of the Statement of Revenues, Expenditures and Changes  
in Fund Balances of Governmental Funds to the Statement of Activities  
For the Fiscal Year Ended June 30, 2009*

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**Net Change in Fund Balances -Total Governmental Funds** \$3,125,207

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

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

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

Capital Asset Additions	2,936,236	
Current Year Depreciation	(3,007,193)	
<b>Total</b>		<b>(70,957)</b>

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

Delinquent Property Taxes	1,456,103	
Intergovernmental	838,106	
<b>Total</b>		<b>2,294,209</b>

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

Accrued Interest on Bonds	2,837	
Annual Accretion	(96,794)	
Amortization of Bond Premium	56,365	
Amortization of Accounting Loss	(17,947)	
Amortization of Bond Issuance Costs	(19,997)	
<b>Total</b>		<b>(75,536)</b>

Repayment of bond principal is an expenditure in the governmental funds, but the  
repayment reduces long-term liabilities in the statement of net assets. 495,000

Compensated absences reported in the statement of activities, do not  
require the use of current financial resources and therefore are not  
reported as expenditures in governmental funds. (501,296)

*Change in Net Assets of Governmental Activities* \$5,266,627

See accompanying notes to the basic financial statements

**East Cleveland City School District**  
*Statement of Revenues, Expenditures and Changes*  
*in Fund Balance - Budget (Non-GAAP Basis) and Actual*  
*General Fund*  
*For the Fiscal Year Ended June 30, 2009*

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
<b>Revenues</b>				
Property Taxes	\$7,725,340	\$8,834,191	\$8,834,191	\$0
Intergovernmental	34,638,216	34,431,067	34,431,067	0
Interest	1,050,000	485,285	485,285	0
Tuition and Fees	2,861,500	3,835,721	3,835,721	0
Rentals	3,000	2,222	2,222	0
Contributions and Donations	200,047	208,652	208,652	0
Miscellaneous	475,000	549,016	549,016	0
<i>Total Revenues</i>	46,953,103	48,346,154	48,346,154	0
<b>Expenditures</b>				
Current:				
Instruction:				
Regular	32,557,353	16,349,678	14,596,918	1,752,760
Special	3,676,601	7,777,365	7,697,534	79,831
Vocational	258,547	1,558,432	1,543,566	14,866
Student Intervention Services	5,355,103	5,188,251	5,109,901	78,350
Support Services:				
Pupil	32,349	2,172,451	2,160,904	11,547
Instructional Staff	80,576	978,488	964,426	14,062
Board of Education	153,636	140,846	49,895	90,951
Administration	656,276	3,860,302	3,853,277	7,025
Fiscal	738,730	1,560,219	1,532,525	27,694
Business	1,120,651	1,211,640	377,013	834,627
Operation and Maintenance of Plant	2,994,659	5,173,174	5,144,609	28,565
Pupil Transportation	741,759	1,305,347	1,252,210	53,137
Central	2,318,199	2,993,383	2,527,226	466,157
Extracurricular Activities	405	299,424	293,965	5,459
Capital Outlay	210,000	210,000	0	210,000
<i>Total Expenditures</i>	50,894,844	50,779,000	47,103,969	3,675,031
<i>Excess of Revenues Over (Under) Expenditures</i>	(3,941,741)	(2,432,846)	1,242,185	3,675,031
<b>Other Financing Sources (Uses)</b>				
Advances In	2,000,000	3,526,846	3,526,846	0
Advances Out	(3,000,000)	(1,362,233)	(1,362,233)	0
Transfers Out	(393,205)	(376,779)	(376,779)	0
<i>Total Other Financing Sources (Uses)</i>	(1,393,205)	1,787,834	1,787,834	0
<i>Net Change in Fund Balance</i>	(5,334,946)	(645,012)	3,030,019	3,675,031
<i>Fund Balance Beginning of Year</i>	22,216,806	22,216,806	22,216,806	0
Prior Year Encumbrances Appropriated	1,646,586	1,646,586	1,646,586	0
<i>Fund Balance End of Year</i>	\$18,528,446	\$23,218,380	\$26,893,411	\$3,675,031

See accompanying notes to the basic financial statements

**East Cleveland City School District**  
*Statement of Fiduciary Assets and Liabilities*  
*Agency Funds*  
*June 30, 2009*

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	<u>Agency</u>
<b>Assets</b>	
Equity in Pooled Cash and Cash Equivalents	<u>\$160,602</u>
<b>Liabilities</b>	
Undistributed Monies	\$9,135
Due to Students	<u>151,467</u>
<i>Total Liabilities</i>	<u>\$160,602</u>

See accompanying notes to the basic financial statements

**East Cleveland City School District**  
*Notes to the Basic Financial Statements*  
*For the Fiscal Year Ended June 30, 2009*

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**Note 1 - Description of the School District and Reporting Entity**

East Cleveland City School District (the School District) is a city school district as defined by Section 3311.02 of the Ohio Revised Code. Although the first public school in East Cleveland was established by the township in 1846, the will of John Shaw in 1835 provided for the establishment of a private academy in East Cleveland Township. In 1870, the Board of Education of East Cleveland Township assumed management of the academy and in 1883, the Board and the Shaw Trustees agreed on the Board's long-range operation of the school. The School District is one of the 614 school districts in the State of Ohio and one of 33 in Cuyahoga County, and provides education to 3,490 students in grades K through 12. The School District is located in northeast Ohio, covers approximately 2.8 square miles and includes all of the City of East Cleveland and a small portion of the City of Cleveland Heights. The operation of the School District is governed by an elected five-member Board of Education.

The Board controls the School District's five elementary schools, a middle school and a high school, staffed by 189 non-certified personnel, 319 certified teaching personnel and 37 administrators who provide services to community members and students.

On March 12, 2003, the School District was declared to be in a state of "Fiscal Emergency" by the Auditor of State under section 3316.03B(5), Revised Code. In accordance with the law, a five-member Financial Planning and Supervision Commission was established to oversee all financial affairs of the School District. The Commission is comprised of two appointees of the State Superintendent of Public Instruction, an appointee of the State Director of the Office of Budget and Management, an appointee of the Governor, and an appointee of the Mayor of East Cleveland. The Commission's primary charge is to develop, adopt and implement a financial recovery plan. Once the plan is adopted, the Board of Education's discretion is limited in that all financial activity of the School District must be in accordance with the plan. The recovery plan was adopted on July 29, 2003. It is updated annually according to State law. The latest plan was updated in fiscal year 2008. Staffing levels will be monitored and adjusted once enrollment is known for the 2008-2009 school year. The School District will also monitor spending in areas it can exercise more discretion. The School District will also make it a priority to address the comments in the Auditor of State's Report on Accounting Methods.

*Reporting Entity*

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

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

**East Cleveland City School District**  
*Notes to the Basic Financial Statements*  
*For the Fiscal Year Ended June 30, 2009*

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The School District participates in an insurance purchasing pool, a related organization and two jointly governed organizations. These organizations are the Ohio School Boards' Association Workers' Compensation Group Rating Program, East Cleveland Public Library, the Lakeshore Northeast Ohio Computer Association and Ohio Schools Council Association. These organizations are presented in Notes 17, 18 and 21 of the notes to the basic financial statements.

**Note 2 - Summary of Significant Accounting Policies**

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

***A. Basis of Presentation***

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

***Government-wide Financial Statements*** The statement of net assets and the statement of activities display information about the School District as a whole. These statements include the financial activities of the primary government, except for fiduciary funds. These statements usually distinguish between those activities of the School District that are governmental (primarily supported by taxes and intergovernmental revenues) and those that are considered business-type activities (primarily supported by fees and charges). The School District, however has no business-type activities.

The statement of net assets presents the financial condition of the governmental activities of the School District at fiscal year-end. The statement of activities presents a comparison between direct expenses and program revenues for each program or function of the School District's governmental activities. Direct expenses are those that are specifically associated with a service, program or department and therefore clearly identifiable to a particular function. Program revenues include charges paid by the recipient of the goods or services offered by the program, grants and contributions that are restricted to meeting the operational or capital requirements of a particular program and interest earned on grants that is required to be used to support a particular program. Revenues which are not classified as program revenues are presented as general revenues of the School District, with certain limited exceptions. The comparison of direct expenses with program revenues identifies the extent to which a governmental function is self-financing or draws from the general revenues of the School District.

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



**East Cleveland City School District**  
*Notes to the Basic Financial Statements*  
*For the Fiscal Year Ended June 30, 2009*

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***B. Fund Accounting***

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

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

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

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

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

***C. Measurement Focus***

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

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

***D. Basis of Accounting***

Basis of accounting determines when transactions are recorded in the financial records and reported on the financial statements. Government-wide financial statements are prepared using the accrual basis of accounting. Governmental funds use the modified accrual basis of accounting. Fiduciary funds also use

**East Cleveland City School District**  
*Notes to the Basic Financial Statements*  
*For the Fiscal Year Ended June 30, 2009*

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the accrual basis of accounting. Differences in the accrual and the modified accrual basis of accounting arise in the recognition of revenue, the recording of deferred revenue, and in the presentation of expenses versus expenditures.

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

Nonexchange transactions, in which the School District receives value without directly giving equal value in return, include property taxes, grants, entitlements and donations. On an accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied. (See Note 9). Revenue from grants, entitlements and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the fiscal year when the resources are required to be used or the fiscal year when use is first permitted, matching requirements, in which the School District must provide local resources to be used for a specified purpose, and expenditure requirements, in which the resources are provided to the School District on a reimbursement basis. On a modified accrual basis, revenue from nonexchange transactions must also be available before it can be recognized.

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

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

Property taxes for which there is an enforceable legal claim as of June 30, 2009, but which were levied to finance fiscal year 2010 operations, have been recorded as deferred revenue. Grants and entitlements received before the eligibility requirements are met are also recorded as deferred revenue.

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

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

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

### ***E. Budgetary Data***

All funds, other than agency funds, are legally required to be budgeted and appropriated. The major documents prepared are the tax budget, the appropriation resolution and the certificate of estimated resources, which are prepared on the budgetary basis of accounting. The tax budget demonstrates a need for existing or increased tax rates. The certificate of estimated resources establishes a limit on the amounts that the Board of Education may appropriate. The appropriation resolution is the Board's authorization to spend

**East Cleveland City School District**  
*Notes to the Basic Financial Statements*  
*For the Fiscal Year Ended June 30, 2009*

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resources and set annual limits on expenditures plus encumbrances at a level of control selected by the Board. The legal level of control has been established by the Board of Education at the fund level for all funds. The budgets are monitored at the object level within a function and fund. The Treasurer has been given the authority to allocate appropriations to the function and object levels within each fund.

The certificate of estimated resources may be amended during the fiscal year if projected increases or decreases in revenue are identified by the School District Treasurer. Prior to year end, the School District requested and received an amended certificate of estimated resources that reflects actual revenue for the fiscal year. The amounts reported as the original and final budgeted amounts in the budgetary statements reflect the amounts in the amended certificate when the original and final appropriations were adopted.

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

***F. Cash and Cash Equivalents***

To improve cash management, cash received by the School District is pooled. Monies for all funds are maintained in this pool. Individual fund integrity is maintained through School District records. Interest in the pool is presented as "equity in pooled cash and cash equivalents" on the financial statements.

During fiscal year 2009, the School District's investments were limited to federal home loan bank bonds, federal national mortgage association bonds, federal home loan mortgage corporation bonds and STAR Ohio.

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

STAR Ohio is an investment pool managed by the State Treasurer's Office which allows governments within the State to pool their funds for investment purposes. STAR Ohio is not registered with the SEC as an investment company, but does operate in a manner consistent with Rule 2a7 of the Investment Company Act of 1940. Investments in STAR Ohio are valued at STAR Ohio's share price which is the price the investment could be sold for on June 30, 2009.

Following Ohio statutes, the Board of Education has, by resolution, identified the funds to receive an allocation of interest earnings. Interest revenue credited to the general fund during fiscal year 2009 amounted to \$428,413, which includes \$45,089 assigned from other School District funds.

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

***G. Prepaid Items***

Payments made to vendors for services that will benefit periods beyond June 30, 2009, are recorded as prepaid items using the consumption method. A current asset for the prepaid amount is recorded at the time of the purchase and an expenditure/expense is reported in the fiscal year in which services are consumed.

**East Cleveland City School District**  
*Notes to the Basic Financial Statements*  
*For the Fiscal Year Ended June 30, 2009*

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**H. Inventory**

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

**I. Capital Assets**

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

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

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

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

**J. Bond Issuance Costs**

On the government-wide financial statements, bond issuance costs are deferred and amortized over the term of the applicable bonds using the effective interest method. Within the governmental fund statements, bond issuance costs are expended when incurred.

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

**K. Bond Premium**

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

**L. Gain/Loss on Refunding**

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

**East Cleveland City School District**  
*Notes to the Basic Financial Statements*  
*For the Fiscal Year Ended June 30, 2009*

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***M. Interfund Balances***

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

***N. Compensated Absences***

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

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

***O. Accrued Liabilities and Long-Term Obligations***

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

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

***P. Internal Activity***

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

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

***Q. Fund Balance Reserves***

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

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

**East Cleveland City School District**  
*Notes to the Basic Financial Statements*  
For the Fiscal Year Ended June 30, 2009

**R. Net Assets**

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

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

**S. Estimates**

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

**Note 3 - Change in Financial Statement Presentation and Basis of Accounting**

For fiscal year end 2009, the School District has presented financial statements by fund type in accordance with generally accepted accounting principles. In conjunction with this presentation, the School District has changed its basis of accounting from a cash basis to the modified accrual basis of accounting for its governmental fund financial statements and to the accrual basis for its government-wide financial statements. This change required that certain adjustments be recorded to the June 30, 2008 fund balances and net assets as previously reported to reflect the prior year's effect of adopting these new accounting principles. These adjustments had the following effect on fund balance and net assets as they were previously reported.

	General	Other Governmental Funds	Total Governmental Funds
Fund Balance, June 30, 2008	\$23,863,392	\$11,950,570	\$35,813,962
Adjustments	3,248,310	(4,577,003)	(1,328,693)
Fund Reclassification	78,066	1,628	79,694
Adjusted Fund Balance, June 30, 2008	<u>\$27,189,768</u>	<u>\$7,375,195</u>	<u>\$34,564,963</u>
	Governmental Activities	Internal Service Fund	Enterprise Fund/ Business-Type Activities
Net Assets, June 30, 2008	\$35,892,028	\$78,066	\$1,628
Adjustments	80,407,030	0	0
Fund Reclassification	1,628	(78,066)	(1,628)
Adjusted Net Assets, June 30, 2008	<u>\$116,300,686</u>	<u>\$0</u>	<u>\$0</u>

**East Cleveland City School District**  
*Notes to the Basic Financial Statements*  
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**Note 4 - Change in Accounting Principles**

For fiscal year 2009, the School District has implemented Governmental Accounting Standard Board (GASB) Statement No. 49, "Accounting and Financial Reporting for Pollution Remediation Obligations," Statement No. 52, "Land and Other Real Estate Held as Investments by Endowments", Statement No. 55, "The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments," and Statement No. 56, "Codification of Accounting and Financial Reporting Guidance Contained in the AICPA Statements on Auditing Standards."

GASB Statement No. 49 addresses accounting and financial reporting standards for pollution (including contamination) remediation obligations, which are obligations to address the current or potential detrimental effect of existing pollution by participating in pollution remediation activities such as site assessments and cleanup. The implementation of this statement did not result in any change to the School District's financial statements.

GASB Statement No. 52 establishes consistent standards for the reporting of land and other real estate held as investments by essentially similar entities. It requires endowments to report their land and other real estate investments at fair value. Governments are also required to report the changes in fair value as investment income and to disclose the methods and significant assumptions employed to determine fair value. The implementation of this statement did not result in any change in the School District's financial statements.

GASB Statement No. 55 incorporates the hierarchy of generally accepted accounting principles (GAAP) for state and local governments into the GASB authoritative literature. The GAAP hierarchy consists of the sources of accounting principles used in the preparation of financial statements of state and local governmental entities that are presented in conformity with GAAP, and the framework for selecting those principles. The implementation of this statement did not result in any change in the School District's financial statements.

GASB Statement No. 56 incorporates accounting and financial reporting guidance previously only contained in the American Institute of Certified Public Accountants' and auditing literature into the GASB's accounting and financial reporting literature for state and local governments. The statement's guidance addresses related party transactions, going concern considerations, and subsequent events from the AICPA literature. The implementation of this statement did not result in any change in the School District's financial statements.

**Note 5 – Accountability**

At June 30, 2009, the following funds had deficit fund balances:

	<u>Amount</u>
<b>Special Revenue Funds:</b>	
Ohio Reads Grant	\$4,785
Adult Basic Education	11,506
Title VI - B	11,594
Drug Free Education	12,975
Preschool Handicapped	31,400

**East Cleveland City School District**  
*Notes to the Basic Financial Statements*  
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The deficits are due to adjustments for accrued liabilities. The general fund is liable for any deficit in these funds and provides transfers when cash is required, rather than when accruals occur.

**Note 6 - Budgetary Basis of Accounting**

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

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

The following table summarizes the adjustments necessary to reconcile the GAAP basis statement to the budgetary basis statement for the general fund.

Net Change in Fund Balance	
GAAP Basis	\$3,024,606
Net Adjustment for Revenue Accruals	(46,684)
Advances In	3,526,846
Ending Unreported Cash	53,498
Ending Fair Value Adjustment	57,042
Net Adjustment for Expenditure Accruals	316,981
Advances Out	(1,362,233)
Adjustment for Encumbrances	<u>(2,540,037)</u>
Budget Basis	<u><u>\$3,030,019</u></u>



**East Cleveland City School District**  
*Notes to the Basic Financial Statements*  
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**Note 7 - Deposits and Investments**

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

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

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

Interim deposits are deposits of interim monies. Interim monies are those monies which are not needed for immediate use but which will be needed before the end of the current period of designation of depositories. Interim deposits must be evidenced by time certificates of deposit maturing not more than one year from the date of deposit or by savings or deposit accounts, including passbook accounts.

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

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

Investments in stripped principal or interest obligations, reverse repurchase agreements, and derivatives are prohibited. The issuance of taxable notes for the purpose of arbitrage, the use of leverage, and short selling are also prohibited. Investments may only be made through specified dealers and institutions.

**Deposits**

***Custodial Credit Risk*** Custodial credit risk is the risk that in the event of bank failure, the School District will not be able to recover deposits or collateral securities that are in possession of an outside party. At fiscal

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*Notes to the Basic Financial Statements*  
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year end, \$17,333,385 of the School District's bank balance of \$17,583,385 was uninsured and uncollateralized. Although the securities were held by the pledging institution's trust department and all statutory requirements for the deposit of money had been followed, noncompliance with Federal requirements could potentially subject the School District to a successful claim by the FDIC.

The School District has no deposit policy for custodial risk beyond the requirements of State statute. Ohio law requires that deposits be either insured or be protected by eligible securities pledged to and deposited either with the School District or a qualified trustee by the financial institution as security for repayment, or by a collateral pool of eligible securities deposited with a qualified trustee and pledged to secure the repayment of all public monies deposited in the financial institution whose market value at all times shall be at least one hundred five percent of the deposits being secured.

**Investments**

Investments are reported at fair value. As of June 30, 2009, the School District had the following investments:

	Maturity		Total
	Less Than One Year	More Than One Year But Less Than Three Years	
Federal Home Loan Bank Bonds	\$0	\$5,800,032	\$5,800,032
Federal National Mortgage Association Bonds	0	10,010,000	10,010,000
Federal Home Loan Mortgage Corporation Bonds	3,452,749	0	3,452,749
STAR Ohio	3,978,494	0	3,978,494
<b>Total Portfolio</b>	<b>\$7,431,243</b>	<b>\$15,810,032</b>	<b>\$23,241,275</b>

**Interest Rate Risk** As a means of limiting its exposure to fair value losses caused by rising interest rates, the School District's investment policy requires that operating funds be invested primarily in short-term investments maturing within five years from the date of purchase and that the School District's investment portfolio be structured so that securities mature to meet cash requirements for ongoing operations and/or long-term debt payments. The stated intent of the policy is to avoid the need to sell securities prior to maturity.

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

**Concentration of Credit Risk** The School District places no limit on the amount it may invest in any one issuer. The following is the School District's allocation as of June 30, 2009:

Investment	Investments
Federal Home Loan Bank Bonds	24.95 %
Federal National Mortgage Association Bonds	43.07
Federal National Mortgage Corporation Bonds	14.86
STAR Ohio	17.12

**East Cleveland City School District**  
*Notes to the Basic Financial Statements*  
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**Note 8 - Receivables**

Receivables at June 30, 2009, consisted of taxes, accounts (student fees and tuition), intergovernmental and grants. All receivables are considered collectible in full due to the ability to foreclose for the nonpayment of taxes, the stable condition of State programs, and the current year guarantee of federal funds. All receivables except for delinquent property taxes are expected to be collected within one year. Property taxes, although ultimately collectible, include some portion of delinquencies that will not be collected within one year.

A summary of principal items of intergovernmental receivables follows:

<u>Governmental Activities</u>	<u>Amount</u>
Title VI - B	\$464,688
Title I	284,395
Title VI-R Grants and Subsidies	245,157
Federal Lunch Subsidy	179,482
Miscellaneous Federal Grants and Subsidies	126,656
Public School Preschool	60,007
Drug Free Education	45,078
Alternative Schools	41,360
Vocational Education	34,841
Ohio Schools Council Electricity Refund	31,128
Adult Basic Education	31,086
Ohio Reads Grants and Subsidies	30,088
Preschool Handicapped	2,945
ROTC Salary	1,806
Title VI	1,427
Miscellaneous	530
Total	<u>\$1,580,674</u>

**Note 9 - Property Taxes**

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

Property taxes include amounts levied against all real property, public utility property and tangible personal property (used in business) located in the School District. Real property tax revenues received in calendar year 2009 represents collections of calendar year 2008 taxes. Real property taxes received in calendar year 2009 were levied after April 1, 2008, on the assessed value listed as of January 1, 2008, the lien date. Assessed values for real property taxes are established by State statute at thirty-five percent of appraised market value. Real property taxes are payable annually or semi-annually. If paid annually, payment is due December 31; if paid semi-annually, the first payment is due December 31 with the remainder payable by June 20. Under certain circumstances, State statute permits alternate payment dates to be established.

Public utility property tax revenues received in calendar year 2009 represent collections of calendar year 2008 taxes. Public utility real and tangible personal property taxes received in calendar year 2009 became a lien December 31, 2007, were levied after April 1, 2008 and are collected in 2009 with real property taxes. Public utility real property is assessed at thirty-five percent of true value; public utility tangible personal property currently is assessed at varying percentages of true value.

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*Notes to the Basic Financial Statements*  
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Tangible personal property tax revenues received in calendar year 2009 (other than public utility property tax) represent the collection of calendar year 2009 taxes levied against local and inter-exchange telephone companies. Tangible personal property tax on business inventory, manufacturing machinery and equipment, and furniture and fixtures is no longer levied and collected. The October 2008 tangible personal property tax settlement was the last property tax settlement for general personal property taxes. Tangible personal property taxes received from telephone companies in calendar year 2009 were levied after October 1, 2008, on the value as of December 31, 2008. Payments by multi-county taxpayers are due September 20. Single county taxpayers may pay annually or semi-annually. If paid annually, payment is due April 30; if paid semi-annually, the first payment is due April 30, with the remainder payable by September 20. Tangible personal property taxes paid by April 30 are usually received by the School District prior to June 30; however, this year the settlement was late.

The School District receives property taxes from Cuyahoga County. The County Auditor periodically advances to the School District its portion of the taxes collected. Second-half real property tax payments collected by the County by June 30, 2009, are available to finance fiscal year 2009 operations. The amount available to be advanced can vary based on the date the tax bills are sent.

Accrued property taxes receivable includes real property, public utility property and tangible personal property taxes which are measurable as of June 30, 2009 and for which there is an enforceable legal claim. Although total property tax collections for the next fiscal year are measurable, only the amount of real property taxes available as an advance at June 30 and the late personal property tax settlement were levied to finance current fiscal year operations and are reported as revenue at fiscal year-end. The portion of the receivable not levied to finance current fiscal year operations is offset by a credit to deferred revenue.

The amount available as an advance at June 30, 2009, was \$1,298,460 in the general fund, \$73,579 in the general obligation bond retirement debt service fund and \$70,694 in the classroom facilities maintenance capital projects fund. The amount available as an advance June 30, 2008, was \$1,229,774 in the general fund, \$124,361 in the bond retirement debt service fund, \$15,477 and in the classroom facilities maintenance fund.

The late tax settlement made by the County for fiscal year 2009 was \$15,938 in the general fund, \$581 in the bond retirement fund debt service fund and \$90 in the classroom facilities maintenance capital projects fund. The late tax settlement made by the County for fiscal year 2008 was \$40,836 in the general fund, \$1,488 in the bond retirement fund debt service fund and \$231 in the classroom facilities maintenance capital projects fund.

On a full accrual basis, collectible delinquent property taxes have been recorded as a receivable and revenue, while on a modified accrual basis the revenue has been deferred.

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The assessed values upon which the fiscal year 2009 taxes were collected are:

	Half Collections		Half Collections	
	Amount	Percent	Amount	Percent
Real Estate				
Residential/Agricultural	\$198,812,860	70.46 %	\$198,552,460	70.14 %
Other Real Estate	61,243,170	21.70	68,248,390	24.11
Tangible Personal Property				
Public Utility	8,566,530	3.04	8,762,220	3.09
General	13,544,940	4.80	7,517,550	2.66
<b>Total</b>	<b>\$282,167,500</b>	<b>100.00 %</b>	<b>\$283,080,620</b>	<b>100.00 %</b>
 Tax rate per \$1,000 of assessed valuation	 \$92.10		 \$92.10	

**Note 10 - Contingencies**

***A. Grants***

The School District received financial assistance from federal and State agencies in the form of grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and are subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the general fund or other applicable funds. However, in the opinion of management, any such disallowed claims will not have a material adverse effect on the overall financial position of the School District at June 30, 2009.

***B. Litigation***

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

**East Cleveland City School District**  
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**Note 11 - Capital Assets**

Capital asset activity for the fiscal year ended June 30, 2009, was as follows:

	Balance 6/30/08	Additions	Deletions	Balance 6/30/09
<b>Governmental Activities</b>				
<i>Capital Assets, not being depreciated:</i>				
Land	\$2,389,900	\$0	\$0	\$2,389,900
<i>Capital Assets, being depreciated:</i>				
Land Improvements	2,404,690	0	0	2,404,690
Buildings and Improvements	93,174,721	2,335,836	0	95,510,557
Furniture and Equipment	5,052,337	600,400	0	5,652,737
Vehicles	481,048	0	0	481,048
Textbooks	725,305	0	0	725,305
<i>Total Capital Assets, being Depreciated</i>	<u>101,838,101</u>	<u>2,936,236</u>	<u>0</u>	<u>104,774,337</u>
Less Accumulated Depreciation:				
Land Improvements	(462,247)	(122,743)	0	(584,990)
Buildings and Improvements	(12,625,204)	(2,264,093)	0	(14,889,297)
Furniture and Equipment	(2,770,617)	(502,911)	0	(3,273,528)
Vehicles	(360,187)	(24,193)	0	(384,380)
Textbooks	(233,134)	(93,253)	0	(326,387)
<i>Total Accumulated Depreciation</i>	<u>(16,451,389)</u>	<u>(3,007,193) *</u>	<u>0</u>	<u>(19,458,582)</u>
<i>Total Capital Assets, being Depreciated, Net</i>	<u>85,386,712</u>	<u>(70,957)</u>	<u>0</u>	<u>85,315,755</u>
<i>Governmental Activities Capital Assets, Net</i>	<u>\$87,776,612</u>	<u>(\$70,957)</u>	<u>\$0</u>	<u>\$87,705,655</u>

\* Depreciation expense was charged to governmental functions as follow:

Instruction:	
Regular	\$1,238,569
Special	465,788
Vocational	95,834
Support Services:	
Pupil	123,619
Instructional Staff	106,503
Administration	213,099
Fiscal	96,605
Business	20,606
Operation and Maintenance of Plant	237,250
Pupil Transportation	91,551
Central	161,307
Operation of Non-Instructional Services:	
Food Service Operations	140,938
Extracurricular Activities	15,524
Total Depreciation Expense	<u>\$3,007,193</u>

**East Cleveland City School District**  
*Notes to the Basic Financial Statements*  
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**Note 12 - Interfund Balances**

The School District transferred the following amounts to various funds during fiscal year 2009.

Transfers In	Transfers Out General Fund
<b>Non-Major Funds</b>	
District Managed Activities	\$105,980
Miscellaneous State Grants	4,106
Miscellaneous Federal Grants	266,693
<i>Total Governmental Activities</i>	<i>\$376,779</i>

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

Interfund balances at June 30, 2009, consist of the following individual fund receivables and payables:

Interfund Payable	Interfund Receivable General Fund
<b>Governmental Activities</b>	
<b>Non-Major Funds</b>	
Public School Preschool	\$66,026
School Net	3,500
Ohio Reads	54,088
Alternative Schools	72,922
Adult Basic Aid	73,657
Title VI-B	515,054
Vocational Education	73,499
Title I	849,252
Title VI	1,580
Drug Free Schools	74,473
Preschool Handicapped	45,205
Title VI-R	245,157
Miscellaneous Federal Grants	32,407
<i>Total Governmental Activities</i>	<i>\$2,106,820</i>

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

## **Note 13 - Risk Management**

### ***A. Property and Liability***

The School District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees and natural disasters. During fiscal year 2009, the School District contracted with Indiana/Liberty Mutual Insurance Company for property insurance of \$115,640,700, fleet insurance of \$1,000,000 and liability coverage of \$5,000,000 with a \$5,000 deductible.

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

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

### ***B. Worker's Compensation***

For fiscal year 2009, the School District participated in the Ohio School Boards' Association Workers' Compensation Group Rating Program (GRP), an insurance purchasing pool (Note 17). The intent of the GRP is to achieve the benefit of a reduced premium for the School District by virtue of its grouping and representation with other participants in the GRP. The workers' compensation experience of the participating school districts is calculated as one experience and a common premium rate is applied to all school districts in the GRP. Each participant pays its workers' compensation premium to the State based on the rate for the GRP rather than its individual rate. Participation in the GRP is limited to school districts that can meet the GRP's selection criteria. The firm of Gates McDonald & Co. provides administrative, cost control, and actuarial services to the GRP.

### ***C. Employee Benefits***

The School District has contracted with Anthem and Kaiser to provide employee medical, surgical, prescription drug and dental benefits. The School District pays \$2,215 for family coverage, \$1,582 for single plus one coverage and \$791 for single coverage per month for those employees electing Anthem. The School District pays \$1,318 for family coverage, \$878 for single plus one coverage and \$439 for single coverage per month for those employees electing Kaiser. The employees pay fifteen percent of the premium through a payroll deduction.

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

## **Note 14 - Compensated Absences**

The criteria for determining vacation and sick leave benefits is derived from negotiated agreements and State laws. Classified employees earn ten to twenty days of vacation per year, depending upon length of service and hours worked. Accumulated unused vacation time is paid to classified employees upon termination of employment. Teachers do not earn vacation time. Each employee earns sick leave at a rate of one and one-fourth days per month. Sick leave may be accumulated to a maximum of 365 days (certificated employees



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and administrators) and 305 days (non-certificated employees). Upon retirement after 25 years of service, payment is made equal to 35 percent of the accumulated and unused sick leave days for non-certificated employees. Certificated employees who submit their retirement in writing on or before March 31, to be effective the last day of the school year and who were employed prior to July 1, 2002, receive payment equal to 50 percent of their accumulated and unused sick leave days. Certificated employees who submit their retirement in writing on or before March 31, to be effective the last day of the school year and who were employed on or after July 1, 2002, receive payment equal to 35 percent of their accumulated and unused sick leave days. Retirements announced for certificated employees after March 31, receive payment equal to 25 percent of their accumulated and unused sick leave days. For purposes of retirement, the employee receiving such payment must meet the eligibility requirement provisions set by STRS or SERS.

## **Note 15 - Defined Benefit Pension Plans**

### ***A. School Employees Retirement System***

Plan Description - The School District contributes to the School Employees Retirement System (SERS), a cost-sharing multiple employer pension plan. SERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Authority to establish and amend benefits is provided by Chapter 3309 of the Ohio Revised Code. SERS issues a publicly available, stand-alone financial report that includes financial statements and required supplementary information. That report may be obtained by writing to the School Employees Retirement System, 300 East Broad Street, Suite 100, Columbus, Ohio 43215-3746. It is also posted on the SERS' Ohio website at [www.ohsers.org](http://www.ohsers.org) under Employers / Audit Resources.

Funding Policy - Plan members are required to contribute 10 percent of their annual covered salary and the School District is required to contribute at an actuarially determined rate. The current School District rate is 14 percent of annual covered payroll. A portion of the School District's contribution is used to fund pension obligations with the remainder being used to fund health care benefits. For fiscal year 2009, 9.09 percent of annual covered salary was the portion used to fund pension obligations. The contribution requirements of plan members and employers are established and may be amended by the SERS' Retirement Board up to a statutory maximum amount of 10 percent for plan members and 14 percent for employers. Chapter 3309 of the Ohio Revised Code provides statutory authority for member and employer contributions. The School District's required contributions for pension obligations to SERS for the fiscal years ended June 30, 2009, 2008 and 2007 were \$539,489, \$533,123, and \$619,458, respectively; 54.79 percent has been contributed for fiscal year 2009 and 100 percent for fiscal years 2008 and 2007.

### ***B. State Teachers Retirement System***

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

New members have a choice of three retirement plans, a Defined Benefit (DB) Plan, a Defined Contribution (DC) Plan and a Combined Plan. The DB plan offers an annual retirement allowance based on final average salary times a percentage that varies based on years of service, or an allowance based on a member's lifetime contributions and earned interest matched by STRS Ohio funds divided by an actuarially determined annuity factor. The DC Plan allows members to place all their member contributions and employer contributions equal to 10.5 percent of earned compensation into an investment account. Investment decisions are made by

**East Cleveland City School District**  
*Notes to the Basic Financial Statements*  
*For the Fiscal Year Ended June 30, 2009*

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the member. A member is eligible to receive a retirement benefit at age 50 and termination of employment. The member may elect to receive a lifetime monthly annuity or a lump sum withdrawal. The Combined Plan offers features of both the DC Plan and the DB Plan. In the Combined Plan, member contributions are invested by the member, and employer contributions are used to fund the defined benefit payment at a reduced level from the regular DB Plan. The DB portion of the Combined Plan payment is payable to a member on or after age 60; the DC portion of the account may be taken as a lump sum or converted to a lifetime monthly annuity at age 50. Benefits are established by Chapter 3307 of the Ohio Revised Code.

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

Funding Policy - For the fiscal year ended June 30, 2009, plan members were required to contribute 10 percent of their annual covered salaries. The School District was required to contribute 14 percent; 13 percent was the portion used to fund pension obligations. For fiscal year 2008, the portion used to fund pension obligations was also 13 percent. Contribution rates are established by the State Teachers Retirement Board, upon recommendations of its consulting actuary, not to exceed statutory maximum rates of 10 percent for members and 14 percent for employers. Chapter 3307 of the Ohio Revised Code provides statutory authority for member and employer contributions.

The School District's required contributions for pension obligations to STRS Ohio for the fiscal years ended June 30, 2009, 2008, and 2007 were \$2,783,794, \$2,819,733, and \$2,872,935, respectively; 96.47 percent has been contributed for fiscal year 2009 and 100 percent for fiscal years 2008 and 2007. Contributions to the DC and Combined Plans for fiscal year 2009 were \$25,672 made by the School District and \$65,269 made by the plan members.

## **Note 16 - Postemployment Benefits**

### ***A. School Employee Retirement System***

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

Funding Policy – State statute permits SERS to fund the health care benefits through employer contributions. Each year, after the allocation for statutorily required benefits, the Retirement Board allocates the remainder of the employer contribution of 14 percent of covered payroll to the Health Care Fund. The Health Care Fund was established and is administered in accordance with Internal Revenue Code Section 401h. For 2009, 4.16 percent of covered payroll was allocated to health care. In addition, employers pay a surcharge for employees earning less than an actuarially determined amount. For 2009, the actuarially determined amount was \$35,800 and the surcharge paid by the School District was \$89,552.

**East Cleveland City School District**  
*Notes to the Basic Financial Statements*  
*For the Fiscal Year Ended June 30, 2009*

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

The School District's contributions for health care for the fiscal years ended June 30, 2009, 2008, and 2007 were \$336,445, \$331,070, and \$282,032, respectively; 54.79 percent has been contributed for fiscal year 2009 and 100 percent for fiscal years 2008 and 2007.

The Retirement Board, acting with advice of the actuary, allocates a portion of the employer contribution to the Medicare B Fund. For 2009, this actuarially required allocation was 0.75 percent of covered payroll. The School District's contributions for Medicare Part B for the fiscal years ended June 30, 2009, 2008, and 2007 were \$44,512, \$38,413, and \$39,441, respectively; 54.79 percent has been contributed for fiscal year 2009 and 100 percent for fiscal years 2008 and 2007.

***B. State Teachers Retirement System***

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

Funding Policy – Ohio law authorizes STRS Ohio to offer the Plan and gives the Retirement Board authority over how much, if any, of the health care costs will be absorbed by STRS Ohio. Active employee members do not contribute to the Plan. All benefit recipients pay a monthly premium. Under Ohio law, funding for post-employment health care may be deducted from employer contributions. For 2009, STRS Ohio allocated employer contributions equal to one percent of covered payroll to the Health Care Stabilization Fund. The School District's contributions for health care for the fiscal years ended June 30, 2009, 2008, and 2007 were \$214,138, \$216,903, and \$220,995, respectively; 96.47 percent has been contributed for fiscal year 2009 and 100 percent for fiscal years 2008 and 2007.

**Note 17 - Insurance Purchasing Pool**

***Ohio School Boards Association Workers' Compensation Group Rating Program*** - The School District participates in the Ohio School Boards Association Workers' Compensation Group Rating Program (GRP), an insurance purchasing pool. The GRP's business and affairs are conducted by a three member Board of Directors consisting of the President, the President Elect and the Immediate Past President of the OSBA. The Executive Director of the OSBA, or his designee, serves as coordinator of the program. Each year, the participating school districts pay an enrollment fee to the GRP to cover the costs of administering the program.

**Note 18 – Related Organization**

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

**East Cleveland City School District**  
*Notes to the Basic Financial Statements*  
*For the Fiscal Year Ended June 30, 2009*

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

**Note 19 - Long Term Obligations**

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

Debt Issue	Original Issue Date	Original Issue Amount	Interest Rate	Date of Maturity
<i>General Obligation Bonds:</i>				
School Improvement Bonds - 1999				
Serial Bonds	1999	\$9,895,000	3.10-5.00%	December 1, 2008
Capital Appreciation Bonds	1999	664,716	4.45-4.65%	December 1, 2020
School Improvement Refunding Bonds	2007	5,645,000	4.00-5.50%	December 1, 2020

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

	Principal Outstanding 6/30/08	Additions	(Reductions)	Principal Outstanding 6/30/09	Amount Due in One Year
<b>Governmental Activities:</b>					
General Obligations Bonds:					
School Improvement - 1999					
Serial Bonds	\$495,000	\$0	(\$495,000)	\$0	\$0
Capital Appreciation Bonds	664,716	0	0	664,716	234,098
Accretion on Capital Appreciation Bonds	628,612	96,794	0	725,406	280,902
Unamortized Premium	24,661	0	(24,661)	0	0
School Improvement Refunding - 2007					
Serial Bonds	5,645,000	0	0	5,645,000	0
Unamortized Premium	393,659	0	(31,704)	361,955	0
Unamortized Accounting Loss	(222,843)	0	17,947	(204,896)	0
<i>Total General Obligation Bonds</i>	7,628,805	96,794	(533,418)	7,192,181	515,000
Compensated Absences	6,191,155	597,053	(95,757)	6,692,451	4,576,226
<b>Total Governmental Activities</b>	<b>\$13,819,960</b>	<b>\$693,847</b>	<b>(\$629,175)</b>	<b>\$13,884,632</b>	<b>\$5,091,226</b>

The school improvement serial and capital appreciation bonds were issued in 1999 and will be paid from property taxes. These bonds will be paid from the bond retirement fund. This year the addition on the capital appreciation bonds was \$96,794 which represents the annual accretion of discounted interest. The final maturity amount of the capital appreciation bonds is \$1,545,000.

In August 2007, the school district issued school improvement refunding bonds having an original face value of \$5,645,000. These refunding bonds consist of \$5,645,000 in current interest serial bonds. The bonds were issued at a \$422,721 premium and issuance costs were \$138,463.

**East Cleveland City School District**  
*Notes to the Basic Financial Statements*  
For the Fiscal Year Ended June 30, 2009

The refunding bonds were issued to defease the 1999 school improvement general obligation term bonds by placing the proceeds of the new bonds in an irrevocable trust to provide for all future debt service payments. Accordingly, the trust account assets and the liability for the defeased bonds are not included in the School District's financial statements. On June 30, 2009, \$5,685,000 of bonds outstanding were considered defeased.

The overall debt margin of the School District as of June 30, 2009, was \$19,761,389 with an unvoted debt margin of \$277,273. Principal and interest requirements to retire general obligation bonds outstanding at June 30, 2009, are as follows:

	General Obligation Bonds		Capital Appreciation Bonds	
	Principal	Interest	Principal	Interest
2010	\$0	\$270,750	\$234,098	\$280,902
2011	0	270,750	221,470	293,530
2012	0	270,750	209,148	305,852
2013	525,000	260,250	0	0
2014	545,000	238,850	0	0
2015-2019	3,105,000	811,387	0	0
2020-2024	1,470,000	81,950	0	0
Total	\$5,645,000	\$2,204,687	\$664,716	\$880,284

**Note 20 - Set Asides**

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

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

	Textbooks Instructional Materials Reserve	Capital Improvement Reserve
Set-aside Reserve Balances as of June 30, 2008	\$26,869	(\$7,535,162)
Current Year Set-aside Requirement	583,574	583,574
Levy Proceeds Offsets	0	(121,782)
Qualifying Disbursements	(1,659,671)	(406,912)
Totals	(\$1,049,228)	(\$7,480,282)
Set-aside Balance Carried Forward to Future Fiscal Years	(\$1,049,228)	(\$7,480,282)
Set-aside Reserve Balances as of June 30, 2009	\$0	\$0

**East Cleveland City School District**  
*Notes to the Basic Financial Statements*  
*For the Fiscal Year Ended June 30, 2009*

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

**Note 21 - Jointly Governed Organizations**

***A. Lakeshore Northeast Ohio Computer Association***

The Lakeshore Northeast Ohio Computer Association (LNOCA) is a jointly governed organization among sixteen school districts, one educational service center and the East Cleveland City School District. The organization was formed for the purpose of applying modern technology with the aid of computers and other electronic equipment to administrative and instructional functions among the member districts. Each of the school districts support LNOCA based on a per pupil charge. The School District paid \$136,300 to LNOCA during fiscal year 2009.

The Governing Board consists of the superintendent from each of the participating school districts and the educational service center. The degree of control exercised by any participant is limited to its representation on the Governing Board. The Board exercises total control over the operation of the organization including budgeting, appropriating, contracting and designating management. A copy of LNOCA's financial statements may be obtained by contacting the Educational Service Center at 5811 Canal Road, Valley View, Ohio 44125.

***B. Ohio Schools Council Association***

The Ohio Schools' Council (Council) is a jointly governed organization with 126 school districts. The jointly governed organization was created by school districts for the purpose of saving money through volume purchases. Each school district supports the Council by paying an annual participation fee. Each school district member's superintendent serves as a representative of the Assembly. The Assembly elects five of the Council's Board members and the remaining four are representatives of the Greater Cleveland School Superintendents' Association. The Council operates under a nine-member Board of Directors (the Board). The Board is the policy making authority of the Council. The Board meets monthly September to June. The Board appoints an Executive Director who is responsible for receiving and disbursing funds, investing available funds, preparing financial reports for the Board and Assembly and carrying out such other responsibilities as designated by the Board. In fiscal year 2009, the District paid \$800 to the Council. Financial information can be obtained by contacting Dr. David A. Cottrell, the Executive Director at the Ohio Schools Council at 6133 Rockside Road, Suite 10, Independence, Ohio 44131.

The School District participates in the natural gas purchase program. This program allows the School District to purchase natural gas at reduced rates. There are currently 144 districts in the Program. The participants make monthly payments based on estimated usage. Each August, these estimated payments are compared to their actual usage for the year (July to June). School districts that paid more in estimated billings than their actual billings are issued credits on future billings in September until the credits are exhausted and school districts that did not pay enough on estimated billings are invoiced for the difference on the September monthly estimated billing. A new natural gas supplier and program manager was selected for the period October 1, 2008 to September 30, 2010. The program agreement has an indefinite term and provides the option to withdraw from the program by sending written notification by certified mail on or before September 15 of the fiscal year proceeding the fiscal year in which the participant wishes to withdraw from the program.

**East Cleveland City School District**  
*Notes to the Basic Financial Statements*  
*For the Fiscal Year Ended June 30, 2009*

The School District also participates in the Council's electric purchase program. The Council provided 238 school districts and 11 MR/DD boards in the First Energy territory (Cleveland Electric Illuminating, Ohio Edison, Toledo Edison) the ability to purchase electricity at reduced rates if the school district committed to participating in either a thirty-six month (Cleveland Electric Illuminating Company) or a forty-four month (Ohio Edison and Toledo Edison) program beginning either May 1, 2005 or January 1, 2006 and ending December 31, 2008. Each month, the Council invoiced participants based on estimated payments which were compared to their actual usage for the year (July to June). Refund checks were issued to school districts that consumed less than their projected usage of electrical energy and school districts that over-consumed are invoiced. With the end of the Energy for Education II program on December 31, 2008, the School District purchased its electricity from the local area utility, First Energy. Refunds were provided to school districts at the end of the fiscal year to refund any money remaining in the account after all bills were paid.

In September/October 2009, 110 school districts joined a new OSC electricity discount program, Energy for Education III. The Energy for Education III Program provides a fixed price rate for electricity supplied by Duke Retail Energy Sales, Inc. of \$0.051 per kwh for the generation of electricity which cannot be increased until the June 2011 meter reading. School districts are not charged a fee by OSC to participate in this program. School districts pay the utility (Ohio Edison, Toledo Edison or Cleveland Electric Illuminating Co.) directly and receive a discount for the fixed price of generation.

**Note 22 – Contract Obligations**

At June 30, 2009, the School District's significant contractual commitments consisted of:

Company	Contract Amount	Amount Paid	Remaining on Contract
Cardinal Environmental Services	\$239,500	\$0	\$239,500
East-West Construction Company	5,942,413	5,927,732	14,681
Miles Mechanical, Inc.	1,075,274	1,061,774	13,500
Total	<u>\$7,257,187</u>	<u>\$6,989,506</u>	<u>\$267,681</u>

**Note 23 - Operating Lease**

The School District entered into an operating lease with City Management Group, Limited, for the purpose of leasing a bus garage and warehouse to house the School District's buses and maintenance equipment. This is a cancelable lease that is renewed annually. The School District pays \$2,250 per month. For fiscal year 2009, the School District paid rental costs of \$27,000. The School District must provide the lessor written notice at least 90 days prior to termination of the lease.

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**EAST CLEVELAND CITY SCHOOL DISTRICT  
CUYAHOGA COUNTY  
SCHEDULE OF FEDERAL AWARDS RECEIPTS AND EXPENDITURES  
FOR THE YEAR ENDED JUNE 30, 2009**

Federal Grantor/ Pass Through Grantor Program Title	Federal CFDA Number	Receipts	Non-Cash Receipts	Disbursements	Non-Cash Disbursements
<b><u>U.S. DEPARTMENT OF EDUCATION</u></b>					
<i>Passed Through Ohio Department of Education:</i>					
Adult Education - Basic Grants to State	84.002	\$38,491	\$0	\$139,250	\$0
Title 1 Grants to Local Educational Agencies	84.010	5,661,731	0	4,071,786	0
Special Education Cluster:					
Special Education Grants to States	84.027	959,843	0	819,401	0
Special Education - Preschool Grants	84.173	19,047	0	19,791	0
Total Special Education Cluster		<u>978,890</u>	<u>0</u>	<u>839,192</u>	<u>0</u>
Vocational Education - Basic Grant	84.048	231,392	0	232,183	0
Innovative Educational Program Strategies	84.298	12,299	0	5,342	0
Drug-Free Schools Grant	84.186	50,727	0	46,785	0
21st Century Community Learning Centers	84.287	52,301	0	7,843	0
Education Technology State Grants	84.318	39,512	0	37,042	0
Reading First State Grants	84.357	889,510	0	679,698	0
Improving Teacher Quality State Grants	84.367	644,248	0	567,523	0
Total U.S. Department of Education		<u>8,599,101</u>	<u>0</u>	<u>6,626,644</u>	<u>0</u>
<b><u>U.S. DEPARTMENT OF AGRICULTURE</u></b>					
<i>Passed Through Ohio Department of Education:</i>					
Nutrition Cluster:					
School Breakfast Program	10.553	306,489	0	306,489	0
National School Lunch Program	10.555	1,020,265	76,520	1,020,265	76,520
Child and Adult Care Food Program	10.558	4,466	0	4,466	0
Summer Food Service Program for Children	10.559	27,766	0	27,766	0
Total Nutrition Cluster:		<u>1,358,986</u>	<u>76,520</u>	<u>1,358,986</u>	<u>76,520</u>
Total U.S. Department of Agriculture		<u>1,358,986</u>	<u>76,520</u>	<u>1,358,986</u>	<u>76,520</u>
<b><u>U.S. DEPARTMENT OF DEFENSE</u></b>					
<i>Direct Assistance:</i>					
Junior ROTC	12.000	31,804	0	31,804	0
Total U.S. Department of Defense		<u>31,804</u>	<u>0</u>	<u>31,804</u>	<u>0</u>
<b><u>U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES</u></b>					
<i>Passed Through Ohio Department of Job and Family Services:</i>					
Temporary Aid for Needy Families - Closing the Achievement Gap	93.558	0	0	233,529	0
Total U.S. Department of Health and Human Services		<u>0</u>	<u>0</u>	<u>233,529</u>	<u>0</u>
<b>Total Federal Assistance</b>		<u>\$9,989,891</u>	<u>\$76,520</u>	<u>\$8,250,963</u>	<u>\$76,520</u>

See the accompanying notes to this Schedule

**EAST CLEVELAND CITY SCHOOL DISTRICT  
CUYAHOGA COUNTY  
NOTES TO THE SCHEDULE OF FEDERAL AWARDS RECEIPTS AND EXPENDITURES  
FOR THE YEAR ENDED JUNE 30, 2009**

**NOTE A - SIGNIFICANT ACCOUNTING POLICIES**

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

**NOTE B - CHILD NUTRITION CLUSTER**

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

**NOTE C – FOOD DONATION PROGRAM**

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

CFDA – Catalog of Federal Domestic Assistance



# Dave Yost • Auditor of State

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

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

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the East Cleveland City School District, Cuyahoga County, Ohio, (the District) as of and for the year ended June 30, 2009, which collectively comprise the District's basic financial statements and have issued our report thereon dated May 6, 2011, wherein we reported the District restated the, July 1, 2008 governmental activities net assets and fund balances and the business-type activities net assets and fund balances. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the Comptroller General of the United States' *Government Auditing Standards*.

### Internal Control Over Financial Reporting

In planning and performing our audit, we considered the District's internal control over financial reporting as a basis for designing our audit procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of opining on the effectiveness of the District's internal control over financial reporting. Accordingly, we have not opined on the effectiveness of the District's internal control over financial reporting.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, when performing their assigned functions, to prevent, or detect and timely correct misstatements. A *material weakness* is a deficiency, or combination of internal control deficiencies resulting in more than a reasonable possibility that a material misstatement of the District's financial statements will not be prevented, or detected and timely corrected.

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

### **Compliance and Other Matters**

As part of reasonably assuring whether the District's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could directly and materially affect the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and accordingly, we do not express an opinion. The results of our tests disclosed an instance of noncompliance or other matters we must report under *Government Auditing Standards* which are described in the accompanying schedule of findings as item 2009-01.

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

The District's response to the finding identified in our audit is described in the accompanying schedule of findings. We did not audit the District's response and, accordingly, we express no opinion on it.

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



**Dave Yost**  
Auditor of State

May 6, 2011



# Dave Yost • Auditor of State

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

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

### Compliance

We have audited the compliance of East Cleveland City School District, Cuyahoga County, Ohio (the District) with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133, Compliance Supplement* that apply to each of its major federal programs for the year ended June 30, 2009. The summary of auditor's results section of the accompanying schedule of findings identifies the District's major federal programs. The District's management is responsible for complying with the requirements of laws, regulations, contracts, and grants applicable to each major federal program. Our responsibility is to express an opinion on the District's compliance based on our audit.

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

In our opinion, the District complied, in all material respects, with the requirements referred to above that apply to each of its major federal programs for the year ended June 30, 2009.

### Internal Control Over Compliance

The District's management is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the District's internal control over compliance with requirements that could directly and materially affect a major federal program in order to determine our auditing procedures for the purpose of opining on compliance in accordance with OMB Circular A-133, but not for the purpose of opining on the effectiveness of internal control over compliance. Accordingly, we have not opined on the effectiveness of the District's internal control over compliance.

**Internal Control Over Compliance (Continued)**

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

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

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



**Dave Yost**  
Auditor of State

May 6, 2011

**EAST CLEVELAND CITY SCHOOL DISTRICT  
 CUYAHOGA COUNTY  
 SCHEDULE OF FINDINGS  
 OMB CIRCULAR A -133 § .505  
 FOR THE FISCAL YEAR ENDED JUNE 30, 2009**

**1. SUMMARY OF AUDITOR'S RESULTS**

<b>(d)(1)(i)</b>	<b>Type of Financial Statement Opinion</b>	Unqualified
<b>(d)(1)(ii)</b>	<b>Were there any material control weaknesses reported at the financial statement level (GAGAS)?</b>	No
<b>(d)(1)(ii)</b>	<b>Were there any other significant deficiencies in internal control reported at the financial statement level (GAGAS)?</b>	No
<b>(d)(1)(iii)</b>	<b>Was there any reported material noncompliance at the financial statement level (GAGAS)?</b>	Yes
<b>(d)(1)(iv)</b>	<b>Were there any material internal control weaknesses reported for major federal programs?</b>	No
<b>(d)(1)(iv)</b>	<b>Were there any other significant deficiencies in internal control reported for major federal programs?</b>	No
<b>(d)(1)(v)</b>	<b>Type of Major Programs' Compliance Opinion</b>	Unqualified
<b>(d)(1)(vi)</b>	<b>Are there any reportable findings under § .510?</b>	No
<b>(d)(1)(vii)</b>	<b>Major Programs (list):</b>	CFDA# # 84.010 - Title I Grants to Local Educational Agencies  Nutrition Cluster: CFDA # 10.555 – National School Lunch Program CFDA # 10.553 - School Breakfast Program CFDA # 10.558 – Child and Adult Care Food Program CFDA # 10.559 - Summer Service Food Program for Children
<b>(d)(1)(viii)</b>	<b>Dollar Threshold: Type A/B Programs</b>	Type A: > \$ 300,000 Type B: all others
<b>(d)(1)(ix)</b>	<b>Low Risk Auditee?</b>	No

**EAST CLEVELAND CITY SCHOOL DISTRICT  
 CUYAHOGA COUNTY  
 SCHEDULE OF FINDINGS  
 OMB CIRCULAR A -133 § .505  
 FOR THE FISCAL YEAR ENDED JUNE 30, 2009  
 (Continued)**

<b>2. FINDINGS RELATED TO THE FINANCIAL STATEMENTS          REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS</b>
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<b>Finding Number</b>	<b>2009-01</b>
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**Material Noncompliance and Finding for Recovery**

Article XXVII – Compensation and Fringe Benefits, Section R, Severance Pay, of the Agreement between the East Cleveland Board of Education and the East Cleveland Education Association, effective July 2, 2006 to August 17, 2009, states employees are eligible to receive severance for a portion of accumulated and unused sick leave days based on when they submit their retirement in writing. Retirements announced after March 31 will receive twenty-five (25%) of the accumulated unused sick leave.

On August 11, 2008, Diane Colvin submitted a letter to the District stating her intention to retire prior to the 2008-2009 contract year. As a result, Ms. Colvin was entitled to 25% of her accumulated but unused sick leave days at her rate of pay for the 2007-2008 contract year. However, when the District calculated this payout amount, the daily rate of pay for the upcoming contract year was used, rather than the 2007-2008 daily pay rate.

A recalculation of Ms. Colvin’s actual payout and the amount she was entitled to is as follows:

	<u>Days Earned</u>	<u>Pay Rate</u>	<u>Amount</u>
Actual Payout	51	\$377.794	\$19,267
Correct Payout	51	366.794	<u>18,706</u>
Amount Overpaid			<u><u>\$561</u></u>

In accordance with the foregoing facts and pursuant to Oho Rev. Code § 117.28, a finding for Recovery for public monies illegally expended is hereby issued against Diane Colvin in the amount of \$561 and in favor of the East Cleveland City School District’s General Fund.

*State ex rel. McClure v. Hagerman, 155 Ohio St. 320 (1951)* provides that the primary object of an expenditure of public funds should serve a public purpose. Typically the determination of what constitutes a “proper public purpose” rests with the judgment of the governmental entity, unless such determination is arbitrary or unreasonable. Even if a purchase is reasonable, Ohio Attorney General Opinion 82-006 indicates that it must be memorialized by a duly enacted ordinance or resolution and may have a prospective effect only. Auditor of State Bulletin 2003-005, states that the Auditor of State’s Office will only question expenditures where the legislative determination of a public purpose is manifestly arbitrary and incorrect.

Accordingly, Mary Ann Nowak, District Treasurer, and Travelers Casualty and Surety Company of America, her surety, will be jointly and severally liable in the amount of \$561 and in favor of the East Cleveland City School District’s General Fund.

We recommend that all severance pay-offs be reviewed by management to ensure the calculations are correct.



**EAST CLEVELAND CITY SCHOOL DISTRICT  
CUYAHOGA COUNTY  
SCHEDULE OF FINDINGS  
OMB CIRCULAR A -133 § .505  
FOR THE FISCAL YEAR ENDED JUNE 30, 2009  
(Continued)**

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

<b>Finding Number</b>	<b>2009-01</b>
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**Material Noncompliance and Finding for Recovery (Continued)**

**District's Response**

The District will take the necessary measures to safeguard against overpayments to employees in the future. Attempts by the District to recover the overpayment from the employee were futile.

**3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS**

None

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**EAST CLEVELAND CITY SCHOOL DISTRICT  
 CUYAHOGA COUNTY  
 SCHEDULE OF PRIOR AUDIT FINDINGS  
 OMB CIRCULAR A-133 § .505  
 FOR THE FISCAL YEAR ENDED JUNE 30, 2009**

Finding Number	Finding Summary	Fully Corrected?	Not corrected, partially corrected, different corrective action taken; finding no longer valid; Explain
2008-01	Homestead and rollback revenues should be posted to the proper fund, intra-fund transfers should be eliminated from the financial statements and refunding bonds should be recorded on the financial statements	Yes	
2008-02	The annual financial report should be prepared in accordance with accounting principles generally accepted in the United States of America and the Ohio Administrative Code.	Yes	

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# Dave Yost • Auditor of State

## INDEPENDENT ACCOUNTANTS' REPORT ON APPLYING AGREED-UPON PROCEDURES

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

Ohio Rev. Code Section 117.53 states "the auditor of state shall identify whether the school district or community school has adopted an anti-harassment policy in accordance with Section 3313.666 of the Revised Code. This determination shall be recorded in the audit report. The auditor of state shall not prescribe the content or operation of any anti-harassment policy adopted by a school district or community school.

Accordingly, we have performed the procedures enumerated below, which were agreed to by the Board, solely to assist the Board in evaluating whether the East Cleveland City School District, Cuyahoga County, Ohio, (the District) has adopted an anti-harassment policy in accordance with Ohio Rev. Code Section 3313.666. Management is responsible for complying with this requirement. This agreed-upon procedures engagement was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants. The sufficiency of these procedures is solely the responsibility of the Board. Consequently; we make no representation regarding the sufficiency of the procedures described below either for the purpose for which this report has been requested or for any other purpose.

1. We noted the Board adopted an anti-harassment policy at its meeting on November 19, 2007.
2. We read the policy, noting it included the following requirements from Ohio Rev. Code Section 3313.666(B):
  - (1) A statement prohibiting harassment, intimidation, or bullying of any student on school property or at school-sponsored events;
  - (2) A definition of harassment, intimidation, or bullying that includes the definition in division (A) of Ohio Rev. Code Section 3313.666;
  - (3) A procedure for reporting prohibited incidents;
  - (4) A requirement that school personnel report prohibited incidents of which they are aware to the school principal or other administrator designated by the principal;

- (5) A requirement that parents or guardians of any student involved in a prohibited incident be notified and, to the extent permitted by section 3319.321 of the Revised Code and the "Family Educational Rights and Privacy Act of 1974," 88 Stat. 571, 20 U.S.C. 1232q, as amended, have access to any written reports pertaining to the prohibited incident;
- (6) A procedure for documenting any prohibited incident that is reported;
- (7) A procedure for responding to and investigating any reported incident;
- (8) A strategy for protecting a victim from additional harassment, intimidation, or bullying, and from retaliation following a report;
- (9) A disciplinary procedure for any student guilty of harassment, intimidation, or bullying, which shall not infringe on any student's rights under the first amendment to the Constitution of the United States;
- (10) A requirement that the district administration semiannually provide the president of the district board a written summary of all reported incidents and post the summary on its web site, if the district has a web site, to the extent permitted by section 3319.321 of the Revised Code and the "Family Educational Rights and Privacy Act of 1974," 88 Stat. 571, 20 U.S.C. 1232q, as amended.

We were not engaged to and did not conduct an examination, the objective of which would be the expression of an opinion on compliance with the anti-harassment policy. Accordingly, we do not express such an opinion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you.

This report is intended solely for the information and use of the audit committee, the Board of Education and management and is not intended to be and should not be used by anyone other than these specified parties.



**Dave Yost**  
Auditor of State

May 6, 2011



# 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**