



Dave Yost • Auditor of State

**East Cleveland City School District
Cuyahoga County
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Dave Yost • Auditor of State

INDEPENDENT ACCOUNTANTS' REPORT

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

To the Board of Education:

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, 2011, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the District's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the East Cleveland City School District, Cuyahoga County, Ohio, as of June 30, 2011, and the respective changes in financial position, thereof and the respective budgetary comparisons for the General Fund and Title I Fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As described in Note 3, the District implemented Governmental Accounting Standards Board Statement No. 54, "Fund Balance Reporting and Governmental Fund Type Definitions" and restated the June 30, 2010 fund balances of the Governmental Funds due to a change in fund structure.

In accordance with *Government Auditing Standards*, we have also issued our report dated June 22, 2012, 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*, 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 federal awards receipts and expenditures schedule provides additional information required by the U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the basic financial statements. The federal awards receipts and expenditures schedule 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

June 22, 2012

East Cleveland City School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2011
Unaudited

The discussion and analysis of the East Cleveland City School District's (the School District) financial performance provides an overall review of the School District's financial activities for the fiscal year ended June 30, 2011. 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 2011 are as follows:

- General revenues accounted for the majority of all revenues, with intergovernmental revenues representing the largest share of those revenues. Program revenues of \$20,107,181 accounted for the remainder of all revenues.
- Overall expenses increased during fiscal year 2011. This increase is attributed to negotiated salary agreements that approved a step increase and a three percent base increase.
- The balance in the School District's governmental funds decreased from the prior year. This decrease is due to overall increases in expenditures.
- During fiscal year 2011, the School District was released from fiscal emergency.

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, or 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 nonmajor funds presented in total in one column. In the case of the School District, the General Fund is the most significant fund, although the Title I Special Revenue Fund is also considered to be a major fund.

East Cleveland City School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2011
Unaudited

Reporting on the District as a Whole

Statement of Net Assets and the Statement of Activities

While this document contains all of the funds used by the School District to provide programs and activities, the view of the School District as a whole looks at all financial transactions and asks the questions "How did we do financially during 2011?" The Statement of Net Assets and the Statement of Activities provide the basis for answering these questions. The statements include all non-fiduciary 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. Non-financial 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 funds. The School District uses many funds to account for a multitude of financial transactions. However, the fund financial statements focus on the School District's most significant funds. The School District's only major funds are General Fund and Title I Special Revenue Fund.

Governmental Funds - The School District's activities are reported in governmental funds, which focus on how money flows into and out of those funds and the balances left at fiscal 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. These funds use the accrual basis of accounting.

East Cleveland City School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2011
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 2011 compared to fiscal year 2010:

Table 1
 Net Assets

	Governmental Activities		
	2011	2010	Change
Assets			
Current and Other Assets	\$60,976,924	\$61,846,887	(\$869,963)
Capital Assets, Net	83,543,015	85,662,140	(2,119,125)
<i>Total Assets</i>	<u>144,519,939</u>	<u>147,509,027</u>	<u>(2,989,088)</u>
Liabilities			
Current and Other Liabilities	11,793,897	10,763,755	(1,030,142)
Long-Term Liabilities:			
Due Within One Year	1,744,425	1,804,498	60,073
Due in More than One Year	10,098,171	10,367,568	269,397
<i>Total Liabilities</i>	<u>23,636,493</u>	<u>22,935,821</u>	<u>(700,672)</u>
Net Assets			
Invested in Capital Assets, Net of Debt	77,747,620	79,651,515	(1,903,895)
Restricted:			
Capital Projects	1,369,433	1,550,062	(180,629)
Debt Service	3,284,897	2,763,711	521,186
Other Purposes	2,379,394	2,455,125	(75,731)
Unrestricted	36,102,102	38,152,793	(2,050,691)
<i>Total</i>	<u>\$120,883,446</u>	<u>\$124,573,206</u>	<u>(\$3,689,760)</u>

The net assets decreased significantly compared to 2010. The decrease is attributable mainly to the decrease in capital assets by \$2,119,125 as of result of depreciation on capital assets outpacing additions during the year and also due to the decrease in grants receivable caused by a decrease in grants received compared to 2010.

East Cleveland City School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2011
Unaudited

Table 2 shows the changes in net assets for the fiscal year ended June 30, 2011 compared to fiscal year 2010.

Table 2
Change in Net Assets

	Governmental Activities		
	2011	2010	Change
Revenues			
Program Revenues:			
Charges for Services and Sales	\$4,345,711	\$4,438,531	(\$92,820)
Operating Grants and Contributions	15,761,470	12,201,512	3,559,958
<i>Total Program Revenues</i>	<u>20,107,181</u>	<u>16,640,043</u>	<u>3,467,138</u>
General Revenues:			
Property Taxes	6,982,076	10,410,186	(3,428,110)
Grants and Entitlements	35,210,970	36,235,501	(1,024,531)
Investment Earnings	299,320	248,263	51,057
Unrestricted Contributions and Donations	10,682	0	10,682
Miscellaneous	980,573	234,736	745,837
<i>Total General Revenues</i>	<u>43,483,621</u>	<u>47,128,686</u>	<u>(3,645,065)</u>
Total Revenues	<u>63,590,802</u>	<u>63,768,729</u>	<u>(177,927)</u>
Program Expenses			
Instruction	38,076,151	35,768,960	(2,307,191)
Support Services:			
Pupils	4,141,138	2,684,895	(1,456,243)
Instructional Staff	4,813,879	4,170,506	(643,373)
Board of Education	52,061	47,837	(4,224)
Administration	4,571,345	4,490,662	(80,683)
Fiscal	2,729,224	1,759,021	(970,203)
Business	476,437	455,469	(20,968)
Operation and Maintenance of Plant	5,733,546	4,743,138	(990,408)
Pupil Transportation	1,221,218	1,309,512	88,294
Central	2,906,628	2,561,117	(345,511)
Operation of Non-Instructional Services:			
Food Services Operations	1,597,206	1,774,382	177,176
Other Non-Instructional Services	193,108	180,225	(12,883)
Extracurricular Activities	439,433	455,364	15,931
Interest and Fiscal Charges	329,188	361,748	32,560
Total Program Expenses	<u>67,280,562</u>	<u>60,762,836</u>	<u>(6,517,726)</u>
<i>Change in Net Assets</i>	<u>(3,689,760)</u>	<u>3,005,893</u>	<u>(6,695,653)</u>
<i>Net Assets Beginning of Year</i>	<u>124,573,206</u>	<u>121,567,313</u>	<u>3,005,893</u>
<i>Net Assets End of Year</i>	<u>\$120,883,446</u>	<u>\$124,573,206</u>	<u>(\$3,689,760)</u>

East Cleveland City School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2011
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 payments through the Ohio Evidence Based Model and grants. Although the School District relies upon local property taxes to support its operations, the School District does actively solicit and receive additional grant and entitlement funds to help offset some operating costs. Grants, entitlements and contributions made up the largest portion of total revenues while property taxes make up the second largest portion of total revenues in the School District for fiscal year 2011. Charges for services, investments and miscellaneous revenue made up the remainder of total revenues. The combination of taxes and intergovernmental funding along with substantial beginning net assets have provided for coverage of all expenses in governmental activities in past years.

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

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

Table 3
 Net Cost of Governmental Activities

	Total Cost of Services 2011	Total Cost of Services 2010	Net Cost of Services 2011	Net Cost of Services 2010
Instruction	\$38,076,151	\$35,768,960	\$28,892,165	\$26,097,672
Support Services:				
Pupils	4,141,138	2,684,895	2,216,450	2,114,266
Instructional Staff	4,813,879	4,170,506	966,267	1,717,238
Board of Education	52,061	47,837	47,521	43,021
Administration	4,571,345	4,490,662	2,835,188	3,756,863
Fiscal	2,729,224	1,759,021	2,054,935	1,446,898
Business	476,437	455,469	436,744	411,693
Operation and Maintenance of Plant	5,733,546	4,743,138	5,233,869	4,232,312
Pupil Transportation	1,221,218	1,309,512	1,057,137	1,129,379
Central	2,906,628	2,561,117	2,630,804	2,299,960
Operation of Non-Instructional Services:				
Food Service Operations	1,597,206	1,774,382	(49,599)	(32,693)
Other Non-Instructional Services	193,108	180,225	142,542	147,681
Extracurricular Activities	439,433	455,364	380,170	396,755
Interest and Fiscal Charges	329,188	361,748	329,188	361,748
Total	\$67,280,562	\$60,762,836	\$47,173,381	\$44,122,793

East Cleveland City School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2011
Unaudited

The dependence on tax revenues and State subsidies for governmental activities is apparent. For all governmental activities, general revenue support is 70.1 percent.

The School District's Funds

Information about the School District's governmental funds starts on page 14. These funds are accounted for using the modified accrual basis of accounting. All governmental funds had total revenues of \$65,451,645 and expenditures of \$65,470,910. The net change in fund balance for the fiscal year 2011 in the General Fund was a decrease of \$652,484 due to an increase in instructional and support services expenditures being partially offset by an increase in miscellaneous revenue from an increase in monies given to the School District for indirect costs. The net change in fund balance for the fiscal year 2011 in the Title I Special Revenue Fund was an increase of \$35,512 due to receiving grant revenues that exceeded expenditures. The net change in fund balances for the year in all other governmental funds was an increase of \$597,707, due to an overall conservative operating approach.

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 2011, the School District amended its general fund budget several times, but no change was significant. The General Fund final budgeted and actual revenue amounts were in the amount of \$47,831,299, which exceeded the original budgeted revenues of \$47,027,676 by \$803,623. The difference between the original and final budgeted amounts is due to conservative tax and intergovernmental revenue estimates for the fiscal year. The final budgeted expenditures of \$50,617,751 were \$476,258 higher than actual expenditures of \$50,141,493 and \$3,293,289 higher than original budgeted expenditures of \$47,324,462. The School District ended the current fiscal year with an increase in fund balance over fiscal year 2010, and greater 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, 2011
Unaudited

Capital Assets and Debt Administration

Capital Assets

Table 4 shows fiscal year 2011 balances compared to fiscal year 2010.

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

	Governmental Activities	
	2011	2010
Land	\$2,389,900	\$2,389,900
Land Improvements	1,572,604	1,696,957
Buildings and Improvements	76,743,855	78,754,924
Furniture and Equipment	2,575,962	2,442,219
Vehicles	48,282	72,475
Textbooks	212,412	305,665
	\$83,543,015	\$85,662,140

All capital assets, except land, are reported net of depreciation. The decrease in capital assets was due to current year depreciation outpacing acquisitions of capital assets. In prior years, the School District was able to replace all buildings through the Ohio Schools Facility Commission program. For additional information on capital assets, see Note 11 of the notes to the basic financial statements.

For fiscal year 2011, 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 2011, this amounted to \$509,445 for each purpose. The School District had qualifying disbursements exceeding these requirements. See Note 20 for additional set-aside information.

Debt

At June 30, 2011, the School District had the following outstanding debt:

Table 5
 Outstanding Debt at June 30

	Governmental Activities	
	2011	2010
General Obligation Bonds:		
1999 Capital Appreciation Bonds	\$209,148	\$430,618
Accretion on 1999 Capital Appreciation Bonds	287,930	529,262
2007 School Improvement Refunding Bonds	5,774,545	5,788,302
Totals	\$6,271,623	\$6,748,182

East Cleveland City School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2011
Unaudited

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 \$17,183,043 with an unvoted debt margin of \$239,233. 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.

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. As a result of these actions, the School District was released from fiscal emergency by the State Auditor's Office on May 24, 2011.

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

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

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

Contacting the School District's Financial Management

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

East Cleveland City School District

Statement of Net Assets

June 30, 2011

	<u>Governmental Activities</u>
Assets	
Equity in Pooled Cash and Cash Equivalents	\$41,464,011
Cash and Cash Equivalents in Segregated Accounts	7,944
Accounts Receivable	4,430
Intergovernmental Receivable	1,681,082
Materials and Supplies Inventory	14,817
Property Taxes Receivable	17,616,342
Deferred Charges	188,298
Nondepreciable Capital Assets	2,389,900
Depreciable Capital Assets	<u>81,153,115</u>
<i>Total Assets</i>	<u>144,519,939</u>
Liabilities	
Accounts Payable	209,403
Accrued Wages and Benefits Payable	3,064,923
Intergovernmental Payable	1,258,931
Deferred Revenue	6,640,889
Matured Compensated Absences Payable	574,626
Accrued Interest Payable	45,125
Long-Term Liabilities:	
Due Within One Year	1,744,425
Due in More Than One Year	<u>10,098,171</u>
<i>Total Liabilities</i>	<u>23,636,493</u>
Net Assets	
Invested in Capital Assets, Net of Related Debt	77,747,620
Restricted for:	
Capital Projects	1,369,433
Debt Service	3,284,897
Food Service	1,052,401
Student Services	336,910
Other Purposes	990,083
Unrestricted	<u>36,102,102</u>
<i>Total Net Assets</i>	<u>\$120,883,446</u>

See accompanying notes to the basic financial statements

East Cleveland City School District
Statement of Activities
For the Fiscal Year Ended June 30, 2011

	Program Revenues			Net (Expense)
	Expenses	Charges for Services and Sales	Operating Grants and Contributions	Revenue and Changes in Net Assets
Governmental Activities				
Instruction:				
Regular	\$17,726,510	\$1,211,927	\$2,867,359	(\$13,647,224)
Special	13,473,066	820,837	3,698,286	(8,953,943)
Vocational	1,606,447	131,029	0	(1,475,418)
Adult/Continuing	57,362	0	0	(57,362)
Student Intervention Services	5,212,766	454,548	0	(4,758,218)
Support Services:				
Pupil	4,141,138	204,420	1,720,268	(2,216,450)
Instructional Staff	4,813,879	108,464	3,739,148	(966,267)
Board of Education	52,061	4,540	0	(47,521)
Administration	4,571,345	278,053	1,458,104	(2,835,188)
Fiscal	2,729,224	186,232	488,057	(2,054,935)
Business	476,437	39,693	0	(436,744)
Operation and Maintenance of Plant	5,733,546	477,790	21,887	(5,233,869)
Pupil Transportation	1,221,218	95,836	68,245	(1,057,137)
Central	2,906,628	254,899	20,925	(2,630,804)
Operation of Non-Instructional Services:				
Food Service Operations	1,597,206	18,100	1,628,705	49,599
Other Non-Instructional Services	193,108	80	50,486	(142,542)
Extracurricular Activities	439,433	59,263	0	(380,170)
Interest and Fiscal Charges	329,188	0	0	(329,188)
<i>Total Governmental Activities</i>	<u>\$67,280,562</u>	<u>\$4,345,711</u>	<u>\$15,761,470</u>	<u>(47,173,381)</u>
General Revenues				
Property Taxes Levied for:				
General Purposes				6,284,005
Debt Service				638,598
Capital Outlay				59,473
Grants and Entitlements not Restricted to Specific Programs				35,210,970
Investment Earnings				299,320
Unrestricted Contributions and Donations				10,682
Miscellaneous				980,573
<i>Total General Revenues</i>				<u>43,483,621</u>
Change in Net Assets				(3,689,760)
<i>Net Assets Beginning of Year</i>				<u>124,573,206</u>
<i>Net Assets End of Year</i>				<u>\$120,883,446</u>

See accompanying notes to the basic financial statements

East Cleveland City School District

Balance Sheet

Governmental Funds

June 30, 2011

	<u>General</u>	<u>Title I</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Assets				
Equity in Pooled Cash and Cash Equivalents	\$33,104,761	\$1,959,950	\$6,399,300	\$41,464,011
Cash and Cash Equivalents in Segregated Accounts	4,386	504	3,054	7,944
Accounts Receivable	4,430	0	0	4,430
Intergovernmental Receivable	0	1,092,022	589,060	1,681,082
Materials and Supplies Inventory	0	0	14,817	14,817
Interfund Receivable	3,224,932	0	249,854	3,474,786
Property Taxes Receivable	15,736,245	0	1,880,097	17,616,342
<i>Total Assets</i>	<u>\$52,074,754</u>	<u>\$3,052,476</u>	<u>\$9,136,182</u>	<u>\$64,263,412</u>
Liabilities and Fund Balances				
Liabilities				
Accounts Payable	\$147,863	\$0	\$61,540	\$209,403
Accrued Wages and Benefits Payable	2,598,547	223,001	243,375	3,064,923
Intergovernmental Payable	1,048,373	87,630	122,928	1,258,931
Interfund Payable	7,362	1,978,558	1,488,866	3,474,786
Deferred Revenue	14,545,922	829,582	2,155,637	17,531,141
Matured Compensated Absences Payable	322,161	84,935	167,530	574,626
<i>Total Liabilities</i>	<u>18,670,228</u>	<u>3,203,706</u>	<u>4,239,876</u>	<u>26,113,810</u>
Fund Balances				
Nonspendable	0	0	14,817	14,817
Restricted	0	0	5,047,398	5,047,398
Assigned	1,625,983	0	0	1,625,983
Unassigned (Deficit)	31,778,543	(151,230)	(165,909)	31,461,404
<i>Total Fund Balances (Deficit)</i>	<u>33,404,526</u>	<u>(151,230)</u>	<u>4,896,306</u>	<u>38,149,602</u>
<i>Total Liabilities and Fund Balances</i>	<u>\$52,074,754</u>	<u>\$3,052,476</u>	<u>\$9,136,182</u>	<u>\$64,263,412</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, 2011*

Total Governmental Funds Balances	\$38,149,602
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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.	83,543,015
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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	9,634,480
Grants	<u>1,255,772</u>

Total	10,890,252
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Bond issuance costs will be amortized over the life of the bonds on the statement of net assets.	188,298
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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	(209,148)
Bond Premium	(298,547)
Accounting Loss	169,002
Accretion	(287,930)
Compensated Absences	<u>(5,570,973)</u>

Total	<u>(11,842,596)</u>
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<i>Net Assets of Governmental Activities</i>	<u><u>\$120,883,446</u></u>
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See accompanying notes to the basic financial statements

East Cleveland City School District
Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds
For the Fiscal Year Ended June 30, 2011

	General	Title I	Other Governmental Funds	Total Governmental Funds
Revenues				
Property Taxes	\$7,452,416	\$0	\$715,824	\$8,168,240
Intergovernmental	34,872,922	6,595,220	9,955,002	51,423,144
Interest	294,722	0	4,598	299,320
Charges for Services	0	0	18,100	18,100
Tuition and Fees	4,283,098	0	0	4,283,098
Rentals	1,535	0	0	1,535
Extracurricular Activities	12,432	0	30,546	42,978
Contributions and Donations	10,682	0	133,362	144,044
Miscellaneous	1,062,645	39	8,502	1,071,186
<i>Total Revenues</i>	<u>47,990,452</u>	<u>6,595,259</u>	<u>10,865,934</u>	<u>65,451,645</u>
Expenditures				
Current:				
Instruction:				
Regular	13,448,116	4,329	2,867,268	16,319,713
Special	9,261,332	2,446,208	1,417,319	13,124,859
Vocational	1,516,148	0	2,823	1,518,971
Adult/Continuing	57,362	0	0	57,362
Student Intervention Services	5,212,766	0	0	5,212,766
Support Services:				
Pupil	2,245,822	1,487,646	144,419	3,877,887
Instructional Staff	1,232,933	1,865,477	1,671,249	4,769,659
Board of Education	52,061	0	0	52,061
Administration	3,194,647	246,985	944,595	4,386,227
Fiscal	2,177,646	431,972	64,861	2,674,479
Business	460,675	0	0	460,675
Operation and Maintenance of Plant	5,474,593	22,741	207,589	5,704,923
Pupil Transportation	1,101,110	1,933	59,307	1,162,350
Central	2,871,845	0	54,470	2,926,315
Operation of Non-Instructional Services:				
Food Service Operations	0	0	1,624,621	1,624,621
Other Non-Instructional Services	912	52,456	2,908	56,276
Extracurricular Activities	289,968	0	153,621	443,589
Capital Outlay	0	0	312,427	312,427
Debt Service:				
Principal Retirement	0	0	221,470	221,470
Capital Appreciation Bonds Interest	0	0	293,530	293,530
Interest and Fiscal Charges	0	0	270,750	270,750
<i>Total Expenditures</i>	<u>48,597,936</u>	<u>6,559,747</u>	<u>10,313,227</u>	<u>65,470,910</u>
<i>Excess of Revenues Over (Under) Expenditures</i>	<u>(607,484)</u>	<u>35,512</u>	<u>552,707</u>	<u>(19,265)</u>
Other Financing Sources (Uses)				
Transfers In	0	0	45,000	45,000
Transfers Out	(45,000)	0	0	(45,000)
<i>Total Other Financing Sources (Uses)</i>	<u>(45,000)</u>	<u>0</u>	<u>45,000</u>	<u>0</u>
<i>Net Change in Fund Balances</i>	<u>(652,484)</u>	<u>35,512</u>	<u>597,707</u>	<u>(19,265)</u>
<i>Fund Balances (Deficit) Beginning of Year - Restated (See Note 3)</i>	<u>34,057,010</u>	<u>(186,742)</u>	<u>4,298,599</u>	<u>38,168,867</u>
<i>Fund Balances (Deficit) End of Year</i>	<u>\$33,404,526</u>	<u>(\$151,230)</u>	<u>\$4,896,306</u>	<u>\$38,149,602</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, 2011*

Net Change in Fund Balances -Total Governmental Funds (\$19,265)

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

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

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

Capital Asset Additions	1,026,529	
Current Year Depreciation	<u>(3,145,654)</u>	
Total		(2,119,125)

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

Delinquent Property Taxes	(1,186,164)	
Intergovernmental	(584,066)	
Miscellaneous	<u>(90,613)</u>	
Total		(1,860,843)

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

Annual Accretion on Capital Appreciation Bonds	(52,198)	
Amortization of Bond Premium	31,704	
Amortization of Accounting Loss	(17,947)	
Amortization of Bond Issuance Costs	<u>(19,997)</u>	
Total		(58,438)

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

Compensated absences reported in the statement of activities, do not
require the use of current financial resources and therefore are not
reported as expenditures in governmental funds. (147,089)

Change in Net Assets of Governmental Activities (\$3,689,760)

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, 2011

	Budgeted Amounts			Variance with Final Budget Positive (Negative)
	Original	Final	Actual	
Revenues				
Property Taxes	\$7,255,174	\$7,378,865	\$7,378,865	\$0
Intergovernmental	34,310,441	34,897,036	34,897,036	0
Interest	237,244	241,298	241,298	0
Tuition and Fees	4,211,396	4,283,098	4,283,098	0
Rentals	1,509	1,535	1,535	0
Extracurricular Activities	11,962	12,432	12,432	0
Contributions and Donations	10,503	10,682	10,682	0
Miscellaneous	989,447	1,006,353	1,006,353	0
<i>Total Revenues</i>	<u>47,027,676</u>	<u>47,831,299</u>	<u>47,831,299</u>	<u>0</u>
Expenditures				
Current:				
Instruction:				
Regular	13,710,281	13,651,133	13,486,730	164,403
Special	8,591,676	9,434,976	9,434,976	0
Vocational	1,484,450	1,587,562	1,520,645	66,917
Adult/Continuing	56,527	60,454	57,362	3,092
Student Intervention Services	4,565,263	5,213,500	5,213,500	0
Support Services:				
Pupil	2,139,675	2,288,301	2,179,435	108,866
Instructional Staff	1,207,755	1,291,648	1,270,536	21,112
Board of Education	50,474	56,999	56,999	0
Administration	3,124,183	3,341,194	3,274,706	66,488
Fiscal	2,144,642	2,293,612	2,288,587	5,025
Business	534,755	646,182	646,182	0
Operation and Maintenance of Plant	5,391,949	5,930,401	5,930,401	0
Pupil Transportation	1,108,892	1,198,857	1,198,857	0
Central	2,777,709	3,166,819	3,166,819	0
Operation of Non-Instructional Services:				
Other Non-Instructional Services	899	961	912	49
Extracurricular Activities	285,332	305,152	289,546	15,606
Capital Outlay	150,000	150,000	125,300	24,700
<i>Total Expenditures</i>	<u>47,324,462</u>	<u>50,617,751</u>	<u>50,141,493</u>	<u>476,258</u>
<i>Excess of Revenues Under Expenditures</i>	<u>(296,786)</u>	<u>(2,786,452)</u>	<u>(2,310,194)</u>	<u>476,258</u>
Other Financing Sources (Uses)				
Advances In	6,000,000	5,702,600	5,702,600	0
Advances Out	(8,522,103)	(2,524,984)	(2,524,984)	0
Transfers Out	(45,000)	(45,000)	(45,000)	0
<i>Total Other Financing Sources (Uses)</i>	<u>(2,567,103)</u>	<u>3,132,616</u>	<u>3,132,616</u>	<u>0</u>
<i>Net Change in Fund Balance</i>	<u>(2,863,889)</u>	<u>346,164</u>	<u>822,422</u>	<u>476,258</u>
<i>Fund Balance Beginning of Year</i>	<u>27,436,905</u>	<u>27,436,905</u>	<u>27,436,905</u>	<u>0</u>
Prior Year Encumbrances Appropriated	<u>2,705,528</u>	<u>2,705,528</u>	<u>2,705,528</u>	<u>0</u>
<i>Fund Balance End of Year</i>	<u>\$27,278,544</u>	<u>\$30,488,597</u>	<u>\$30,964,855</u>	<u>\$476,258</u>

See accompanying notes to the basic financial statements

East Cleveland City School District
Statement of Revenues, Expenditures and Changes
in Fund Balance - Budget (Non-GAAP Basis) and Actual
Title I Fund
For the Fiscal Year Ended June 30, 2011

	Budgeted Amounts			Variance with Final Budget Positive (Negative)
	Original	Final	Actual	
Revenues				
Intergovernmental	\$6,054,834	\$6,332,781	\$6,332,780	(\$1)
Miscellaneous	0	39	39	0
<i>Total Revenues</i>	<u>6,054,834</u>	<u>6,332,820</u>	<u>6,332,819</u>	<u>(1)</u>
Expenditures				
Current:				
Instruction:				
Regular	4,562	4,562	4,562	0
Special	6,171,347	4,638,815	2,674,386	1,964,429
Support Services:				
Pupil	177,088	2,210,274	1,673,933	536,341
Instructional Staff	1,052,626	2,959,462	1,945,446	1,014,016
Administration	78,014	340,963	235,914	105,049
Fiscal	196,314	431,972	431,972	0
Operation and Maintenance of Plant	78,241	88,444	22,816	65,628
Pupil Transportation	102,749	127,984	4,298	123,686
Operation of Non-Instructional Services:				
Other Non-Instructional Services	157,467	233,762	49,348	184,414
<i>Total Expenditures</i>	<u>8,018,408</u>	<u>11,036,238</u>	<u>7,042,675</u>	<u>3,993,563</u>
<i>Excess of Revenues Under Expenditures</i>	<u>(1,963,574)</u>	<u>(4,703,418)</u>	<u>(709,856)</u>	<u>3,993,562</u>
Other Financing Sources (Uses)				
Advances In	0	4,665,862	1,428,285	(3,237,577)
Advances Out	0	(3,633,820)	(4,130,077)	(496,257)
<i>Total Other Financing Sources (Uses)</i>	<u>0</u>	<u>1,032,042</u>	<u>(2,701,792)</u>	<u>(3,733,834)</u>
<i>Net Change in Fund Balance</i>	<u>(1,963,574)</u>	<u>(3,671,376)</u>	<u>(3,411,648)</u>	<u>259,728</u>
<i>Fund Balance Beginning of Year</i>	3,688,162	3,688,162	3,688,162	0
Prior Year Encumbrances Appropriated	<u>1,048,267</u>	<u>1,048,267</u>	<u>1,048,267</u>	<u>0</u>
<i>Fund Balance End of Year</i>	<u>\$2,772,855</u>	<u>\$1,065,053</u>	<u>\$1,324,781</u>	<u>\$259,728</u>

See accompanying notes to the basic financial statements

East Cleveland City School District
Statement of Fiduciary Assets and Liabilities
Agency Funds
June 30, 2011

	<u>Agency</u>
Assets	
Equity in Pooled Cash and Cash Equivalents	<u>\$115,967</u>
Liabilities	
Undistributed Monies	\$13,060
Due to Students	<u>102,907</u>
<i>Total Liabilities</i>	<u>\$115,967</u>

See accompanying notes to the basic financial statements

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East Cleveland City School District

*Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2011*

Note 1 - Description of the School District and Reporting Entity

East Cleveland City School District (the School District) is a city school district as defined by Section 3311.02 of the Ohio Revised Code. Although the first public school in East Cleveland was established by the township in 1846, the will of John Shaw in 1835 provided for the establishment of a private academy in East Cleveland Township. In 1870, the Board of Education of East Cleveland Township assumed management of the academy and in 1883, the Board and the Shaw Trustees agreed on the Board's long-range operation of the school. The School District is one of the 614 school districts in the State of Ohio and one of 33 in Cuyahoga County, and provides education to 3,463 students in grades K through 12. The School District is located in northeast Ohio, covers approximately 2.8 square miles and includes all of the City of East Cleveland and a small portion of the City of Cleveland Heights. The operation of the School District is governed by an elected five-member Board of Education. The Board controls the School District's five elementary schools, a middle school and a high school, staffed by 152 classified personnel, 308 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 2010. The Auditor of State examined the School District's financial forecast for the fiscal years ending June 30, 2011 through 2015, for the purpose of determining whether the fiscal emergency conditions have been eliminated and whether any new fiscal emergency conditions are expected to occur during the forecast period. The School District's five-year forecast presents a positive unencumbered and unreserved general fund balance for the five-year period ending June 30, 2015. The Auditor of State, in a report dated April 18, 2011, rendered a "nonadverse" opinion on the financial forecast. The Auditor of State has determined that the Financial Planning and Supervision Commission of the East Cleveland City School District and its functions may be terminated.

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, 2011*

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

Basis of Presentation

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

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

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

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

East Cleveland City School District

Notes to the Basic Financial Statements For the Fiscal Year Ended June 30, 2011

Fund Accounting

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

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

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

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

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

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

Measurement Focus

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

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

East Cleveland City School District

Notes to the Basic Financial Statements For the Fiscal Year Ended June 30, 2011

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 and the statements presented for the fiduciary funds are prepared using the accrual basis of accounting. Governmental funds use the modified 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, fees and rentals.

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, 2011, but which were levied to finance fiscal year 2012 operations, have been recorded as deferred revenue. Grants and entitlements received before the eligibility requirements are met are also recorded as deferred revenue.

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

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

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

East Cleveland City School District

*Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2011*

Budgetary Data

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

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

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

Cash and Cash Equivalents

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

The School District has segregated bank accounts for monies held separate from the School District's central bank accounts. These accounts are presented as "cash and cash equivalents in segregated accounts" since they are not required to be deposited in the School District's treasury.

During fiscal year 2011, the School District's investments were limited to Federal Home Loan Bank Bonds and STAR Ohio. Investments are reported at fair value which is based on quoted market prices.

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, 2011.

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 2011 amounted to \$294,722, which includes \$60,815 assigned from other School District funds.

East Cleveland City School District

*Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2011*

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.

Inventory

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

Capital Assets

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

Capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the fiscal year. The School District was able to estimate the historical cost for the initial reporting of assets by backtrending (i.e., estimating the current replacement cost of the asset to be capitalized and using an appropriate price-level index to deflate the cost to the acquisition year or estimated acquisition year.) Donated capital assets are recorded at their fair market values as of the date received. The School District maintains a capitalization threshold of five 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
Textbooks	10 - 20 years

Bond Issuance Costs

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

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

East Cleveland City School District

*Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2011*

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 reported as an other financing source when received.

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 deferred amount on refunding, is being amortized as a component of interest expense. This deferred amount is amortized over the life of the old or new debt, whichever is shorter.

Interfund Balances

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

Compensated Absences

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

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

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

On the financial statements, compensated absences are recognized as a liability and expenditure to the extent payments come due each period upon the occurrence of employee resignations and retirements. These amounts are recorded in the account "matured compensated absences payable" in the fund from which the employee who has accumulated unpaid leave will be paid.

Accrued Liabilities and Long-Term Obligations

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

In general, governmental fund payables and accrued liabilities that, once incurred, are paid in a timely manner and in full from current financial resources, are reported as obligations of the funds. However, 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.

East Cleveland City School District

Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2011

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.

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 through external restrictions imposed by creditors, grantors or laws or regulations of other governments. Net assets restricted for other purposes include local grants, student services, education management information systems (EMIS), data communications and alternative schools.

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

Fund Balance

Fund balance is divided into five classifications based primarily on the extent to which the School District is bound to observe constraints imposed upon the use of the resources in the governmental funds. The classifications are as follows:

Nonspendable The nonspendable fund balance category includes amounts that cannot be spent because they are not in spendable form, or legally or contractually required to be maintained intact. The “not in spendable form” criterion includes items that are not expected to be converted to cash.

Restricted Fund balance is reported as restricted when constraints placed on the use of resources are either externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments or is imposed by law through constitutional provisions.

Committed The committed fund balance classification includes amounts that can be used only for the specific purposes imposed by a formal action (resolution) of the School District Board of Education. Those committed amounts cannot be used for any other purpose unless the School District Board of Education removes or changes the specified use by taking the same type of action (resolution) it employed to previously commit those amounts. Committed fund balance also incorporates contractual obligations to the extent that existing resources in the fund have been specifically committed for use in satisfying those contractual requirements.

East Cleveland City School District

*Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2011*

Assigned Amounts in the assigned fund balance classification are intended to be used by the School District for specific purposes but do not meet the criteria to be classified as restricted or committed. In governmental funds other than the general fund, assigned fund balance represents the remaining amount that is not restricted or committed. In the general fund, assigned amounts represent intended uses established by policies of the School District Board of Education.

Unassigned Unassigned fund balance is the residual classification for the general fund and includes all spendable amounts not contained in the other classifications. In other governmental funds, the unassigned classification is used only to report a deficit balance resulting from overspending for specific purposes for which amounts had been restricted, committed, or assigned.

The School District applies restricted resources first when expenditures are incurred for purposes for which either restricted or unrestricted (committed, assigned, and unassigned) amounts are available. Similarly, within unrestricted fund balance, committed amounts are reduced first followed by assigned, and then unassigned amounts when expenditures are incurred for purposes for which amounts in any of the unrestricted fund balance classifications could be used.

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 Accounting Principles and Restatement of Prior Year's Fund Balance

Change in Accounting Principles

For fiscal year 2011, the School District has implemented Governmental Accounting Standard Board (GASB) Statement No. 54, "Fund Balance Reporting and Governmental Fund Type Definitions" and Statement No. 59, "Financial Instruments Omnibus".

GASB Statement No. 54 enhances the usefulness of fund balance information by providing clearer fund balance classifications that can be more consistently applied and by clarifying the existing governmental fund type definitions. This statement establishes fund balance classifications that comprise a hierarchy based primarily on the extent to which a government is bound to observe constraints imposed upon the use of the resources reported in governmental funds. The implementation of this statement resulted in the reclassification of certain funds and restatement of the School District's financial statements.

GASB Statement No. 59 addresses significant practice issues that have arisen when accounting for financial instruments by updating and improving existing standards regarding financial reporting of certain financial instruments and external investment pools. The implementation of this statement did not result in any change in the School District's financial statements.

Restatement of Prior Year's Fund Balance

The implementation of GASB Statement No. 54 had the following effect on fund balances of the major and nonmajor funds as they were previously reported:

East Cleveland City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2011

	General	Title I	Nonmajor Governmental Funds	Total Governmental Funds
Fund Balance at June 30, 2010	\$34,032,001	(\$186,742)	\$4,323,608	\$38,168,867
Change in Fund Structure	25,009	0	(25,009)	0
Adjusted Fund Balance at June 30, 2010	<u>\$34,057,010</u>	<u>(\$186,742)</u>	<u>\$4,298,599</u>	<u>\$38,168,867</u>

Note 4 – Fund Deficits

At June 30, 2011, the following funds had deficit fund balances:

	<u>Amounts</u>
Major Fund:	
Title I	\$151,230
Non-Major Funds:	
Preschool Handicapped	48,813
Adult Basic Education	47,307
Alternative Schools	28,800
Fiscal Stabilization	22,099
Drug Free Education	10,299
Educational Jobs	8,438
Title VI	153

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

Note 5 - Budgetary Basis of Accounting

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

1. Revenues are recorded when received in cash (budget basis) as opposed to when susceptible to accrual (GAAP basis).
2. Expenditures are recorded when paid in cash (budget basis) as opposed to when the liability is incurred (GAAP basis).
3. Investments are reported at cost (budget basis) rather than fair value (GAAP basis).
4. Unreported cash represents amounts received by not reported by the School District on the operating statements (budget), but which is reported on the GAAP basis operating statements.

East Cleveland City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2011

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 restricted, committed or assigned fund balance (GAAP basis).

The following table summarizes the adjustments necessary to reconcile the GAAP basis statement to the budgetary basis statement for the General Fund and Title I Special Revenue Fund.

	Net Change in Fund Balances	
	General	Title I
GAAP Basis	(\$652,484)	\$35,512
Net Adjustment for Revenue Accruals	(49,328)	(262,479)
Advances In	5,702,600	1,428,285
Beginning Unposted Adjustments	(76,514)	0
Ending Unposted Adjustments	20,113	0
Beginning Fair Value Adjustment	(146,036)	0
Ending Fair Value Adjustment	92,612	0
Net Adjustment for Expenditure Accruals	709,074	152,280
Advances Out	(2,524,984)	(4,130,077)
Adjustment for Encumbrances	(2,252,631)	(635,169)
Budget Basis	\$822,422	(\$3,411,648)

Note 6 – Fund Balances

Fund balance is classified as nonspendable, restricted, committed, assigned and/or unassigned based primarily on the extent to which the School District is bound to observe constraints imposed upon the use of the resources in the government funds. The constraints placed on fund balance for the major governmental funds and all other governmental funds are presented below:

Fund Balances	General	Title I	Other Governmental Funds	Total
<i>Nonspendable</i>				
Inventory	\$0	\$0	\$14,817	\$14,817
<i>Restricted for</i>				
Food Service Operations	0	0	1,156,566	1,156,566
Vocational Education	0	0	30,982	30,982
Community Involvement	0	0	484,151	484,151
Technology Improvements	0	0	44,355	44,355
Athletics and Music	0	0	40,348	40,348
Remedial Reading	0	0	64,167	64,167
Special Education	0	0	177,240	177,240
Classroom Size Reduction	0	0	63,646	63,646
Debt Service Payments	0	0	1,794,173	1,794,173
Capital Improvements	0	0	1,191,770	1,191,770
<i>Total Restricted</i>	0	0	5,047,398	5,047,398
<i>Assigned to</i>				
Other Purposes	1,625,983	0	0	1,625,983
<i>Unassigned (Deficit)</i>	31,778,543	(151,230)	(165,909)	31,461,404
<i>Total Fund Balances</i>	\$33,404,526	(\$151,230)	\$4,896,306	\$38,149,602

East Cleveland City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2011

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 for deposits 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 the possession of an outside party. At fiscal year end, \$10,972,748 of the School District's bank balance of \$11,222,748 was uninsured

East Cleveland City School District

*Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2011*

and uncollateralized. Although the collateral securities were held by the pledging financial institutions' 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, 2011, the School District had the following investments:

<u>Investment Type</u>	<u>Fair Value</u>	<u>Maturity</u>	<u>Standard and Poors Rating</u>	<u>Percentage of Total Investments</u>
Federal Home Loan Bank Bonds	\$15,556,575	Less than five years	AAA	83.23 %
STAR Ohio	<u>3,133,533</u>	58.3 Days	N/A	16.77
Total Investments	<u>\$18,690,108</u>			

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 and Poor's. Ohio law requires that STAR Ohio maintain the highest rating provided by at least one nationally recognized standard rating service. The School District has no investment policy that addresses credit risk.

Concentration of Credit Risk The School District places no limit on the amount it may invest in any one issuer.

East Cleveland City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2011

Note 8 - Receivables

Receivables at June 30, 2011, consisted of taxes, accounts (miscellaneous), 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 I	\$1,092,022
Race to the Top	188,950
Title VI - B	136,428
Educational Jobs	102,440
School Improvement Subsidy A	52,188
Title VI-R	47,699
Alternative Schools	40,577
Miscellaneous Federal Grants	17,957
Title II-D Technology	2,821
<i>Total Intergovernmental Receivables</i>	<u><u>\$1,681,082</u></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, public utility and tangible personal property (used in business) located in the School District. Real property tax revenue received in calendar year 2011 represents collections of calendar year 2010 taxes. Real property taxes received in calendar year 2011 were levied after April 1, 2010, on the assessed value listed as of January 1, 2010, the lien date. Assessed values for real property taxes are established by State law at 35 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 revenue received in calendar year 2011 represents collections of calendar year 2010 taxes. Public utility real and tangible personal property taxes received in calendar year 2011 became a lien December 31, 2009, were levied after April 1, 2010 and are collected in calendar year 2011 with real property taxes. Public utility real property is assessed at 35 percent of true value; public utility tangible personal property currently is assessed at varying percentages of true value.

Tangible personal property tax revenue received during calendar year 2011 (other than public utility property tax) represents the collection of 2010 taxes levied against local and inter-exchange telephone companies. Tangible personal property tax on business inventory, manufacturing and equipment, furniture and fixtures is no longer levied and collected. Tangible personal property taxes received from telephone companies in calendar year 2010 were levied after October 1, 2009, on the value as of December 31, 2009. Payments by

East Cleveland City School District

*Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2011*

multi-county taxpayers are due September 20. Single county taxpayers may pay annually or semi-annually. If paid annually, payment is due April 30; if paid semi-annually, the first payment is due April 30, with the remainder payable by September 20. Tangible personal property taxes paid by April 30 are usually received by the School District prior to June 30.

The School District receives property taxes from Cuyahoga County. The County Fiscal Officer 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, 2011, are available to finance fiscal year 2011 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, 2011 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 was levied to finance current fiscal year operations and is 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, 2011, was \$1,146,874 in the General Fund, \$133,426 in the General Obligation Bond Retirement Debt Service Fund and \$14,953 in the Classroom Facilities Maintenance Capital Projects Fund. The amount available as an advance June 30, 2010, was \$1,113,410 in the General Fund, \$114,518 in the General Obligation Bond Retirement Debt Service Fund, \$14,217 and in the Classroom Facilities Maintenance Capital Projects Fund. The difference was in the timing and collection by the County Fiscal Officer.

The last tax settlement made by the County for fiscal year 2011 was \$43,449 in the General Fund, \$2,025 in the General Obligation Bond Retirement Debt Service Fund and \$246 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.

The assessed values upon which the fiscal year 2011 taxes were collected are:

	2010 Second Half Collections		2011 First Half Collections	
	Amount	Percent	Amount	Percent
Real Estate				
Residential/Agricultural	\$175,896,600	73.69 %	\$174,417,750	72.91 %
Other Real Estate	53,628,110	22.47	55,415,450	23.16
Tangible Personal Property				
Public Utility	9,177,410	3.84	9,399,560	3.93
Total	<u>\$238,702,120</u>	<u>100.00 %</u>	<u>\$239,232,760</u>	<u>100.00 %</u>
Tax rate per \$1,000 of assessed valuation		\$92.50		\$93.00

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

East Cleveland City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2011

Note 10 - Contingencies

Grants

The School District received financial assistance from Federal and State agencies in the form of grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and are subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the General Fund or other applicable funds. However, in the opinion of management, any such disallowed claims will not have a material adverse effect on the overall financial position of the School District at June 30, 2011.

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.

Note 11 - Capital Assets

Capital asset activity for the fiscal year ended June 30, 2011, was as follows:

	Balance 6/30/10	Additions	Deletions	Balance 6/30/11
Governmental Activities				
<i>Capital Assets, not being depreciated:</i>				
Land	\$2,389,900	\$0	\$0	\$2,389,900
<i>Capital Assets, being depreciated:</i>				
Land Improvements	2,404,690	0	0	2,404,690
Buildings and Improvements	95,966,710	311,061	0	96,277,771
Furniture and Equipment	6,258,685	715,468	0	6,974,153
Vehicles	481,048	0	0	481,048
Textbooks	725,305	0	0	725,305
<i>Total Capital Assets, being Depreciated</i>	105,836,438	1,026,529	0	106,862,967
Less Accumulated Depreciation:				
Land Improvements	(707,733)	(124,353)	0	(832,086)
Buildings and Improvements	(17,211,786)	(2,322,130)	0	(19,533,916)
Furniture and Equipment	(3,816,466)	(581,725)	0	(4,398,191)
Vehicles	(408,573)	(24,193)	0	(432,766)
Textbooks	(419,640)	(93,253)	0	(512,893)
<i>Total Accumulated Depreciation</i>	(22,564,198)	(3,145,654)	0	(25,709,852)
<i>Total Capital Assets, being Depreciated, Net</i>	83,272,240	(2,119,125)	0	81,153,115
<i>Governmental Activities Capital Assets, Net</i>	\$85,662,140	(\$2,119,125)	\$0	\$83,543,015

East Cleveland City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2011

* Depreciation expense was charged to governmental functions as follow:

Instruction:	
Regular	\$1,259,739
Special	485,582
Vocational	109,637
Support Services:	
Pupil	128,310
Instructional Staff	112,108
Administration	213,193
Fiscal	97,065
Business	21,242
Operation and Maintenance of Plant	300,520
Pupil Transportation	91,551
Central	164,766
Operation of Non-Instructional Services:	
Food Service Operations	144,876
Extracurricular Activities	17,065
<i>Total Depreciation Expense</i>	<i>\$3,145,654</i>

Note 12 - Interfund Transactions

Transfers

During fiscal year 2011, the School District made a transfer from the General Fund to the Athletics and Music Special Revenue Fund to move unrestricted balances to support programs and projects.

Balances

During fiscal year 2011, the School District advanced money from the General Fund to the special revenue funds in the amount of \$2,524,984 to support the funds programs pending the receipts of grant money. In addition, \$699,948 of prior year General Fund advances to special revenue funds were not repaid during the fiscal year. The total amount advanced out and not repaid was \$3,224,932, which equaled the General Fund interfund receivable balance at 6/30/2011. \$242,492 was also advanced between special revenue funds pending the receipts of grant money.

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

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 2011, the School District contracted with Indiana/Liberty Mutual Insurance Company for property insurance of \$119,109,920, fleet insurance of \$1,000,000 and liability coverage of \$5,000,000 with a \$5,000 deductible.

East Cleveland City School District

*Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2011*

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.

Workers' Compensation

For fiscal year 2011, 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 and Co. provides administrative, cost control, and actuarial services to the GRP.

Employee Benefits

The School District has contracted with Anthem to provide employee medical, surgical, prescription drug and dental benefits. The School District pays \$1,509 for family coverage, \$1,009 for single plus one coverage and \$505 for single coverage per month. The employees pay five percent of the premium through a payroll deduction.

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

Note 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 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.

East Cleveland City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2011

Note 15 - Defined Benefit Pension Plans

School Employees Retirement System

Plan Description – The School District participates in the School Employees Retirement System (SERS), a cost-sharing multiple-employer defined benefit pension plan. SERS provides retirement, disability and survivor benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Authority to establish and amend benefits is provided by Ohio Revised Code Chapter 3309. SERS issues a publicly available, stand-alone financial report that includes financial statements and required supplementary information. That report can be obtained by visiting the SERS website at www.ohsers.org under Employers/Audit Resources.

Funding Policy – Plan members are required to contribute 10 percent of their annual covered salary and the School District is required to contribute 14 percent of annual covered payroll. The contribution requirements of plan members and employers are established and may be amended by the SERS' Retirement Board up to statutory maximum amounts of 10 percent for plan members and 14 percent for employers. The Retirement Board, acting with the advice of the actuary, allocates the employer contribution rate among four of the System's funds (Pension Trust Fund, Death Benefit Fund, Medicare B Fund, and Health Care Fund). For the fiscal year ended June 30, 2011, the allocation to pension and death benefits was 11.81 percent. The remaining 2.19 percent of the 14 percent employer contribution rate is allocated to the Medicare B and Health Care funds. The School District's required contributions for pension obligations to SERS for the fiscal years ended June 30, 2011, 2010 and 2009 were \$805,180, \$803,245, and \$539,489, respectively. For fiscal year 2011, 97.99 percent has been contributed, with the balance being reported as an intergovernmental payable. The full amount has been contributed for fiscal years 2010 and 2009.

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 system. 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 can be obtained by writing to STRS Ohio, 275 E. Broad St., Columbus, OH 43215-3771, by calling (888) 227-7877, or by visiting the STRS Ohio Web site at www.strsoh.org.

New members have a choice of three retirement plans; a Defined Benefit (DB) Plan, a Defined Contribution (DC) Plan and a Combined Plan. The DB plan offers an annual retirement allowance based on final average salary multiplied by a percentage that varies based on years of service, or an allowance based on a member's lifetime contributions and earned interest matched by STRS Ohio funds divided by an actuarially determined annuity factor. The DC Plan allows members to place all their member contributions and employer contributions equal to 10.5 percent of earned compensation into an investment account. Investment decisions are made by the member. A member is eligible to receive a retirement benefit at age 50 and termination of employment. The member may elect to receive a lifetime monthly annuity or a lump sum withdrawal. The Combined Plan offers features of both the DB Plan and the DC 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 payment or converted to a lifetime monthly annuity at age 50. Benefits are established by Ohio Revised Code Chapter 3307.

East Cleveland City School District

*Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2011*

A DB or Combined Plan member with five or more years of 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 - Chapter 3307 of the Ohio Revised Code provides statutory authority for member and employer contributions. Contribution rates are established by the State Teachers Retirement Board, upon the recommendation of its consulting actuary, not to exceed statutory maximum rates of 10 percent for members and 14 percent for employers. For the fiscal year ended June 30, 2011, plan members were required to contribute 10 percent of their annual covered salary. The School District was required to contribute 14 percent; 13 percent was the portion used to fund pension obligations.

The School District's required contributions to STRS Ohio for the DB Plan and for the defined benefit portion of the Combined Plan were \$2,820,926 and \$74,775 for the fiscal year ended June 30, 2011, \$2,781,314 and \$68,462 for the fiscal year ended June 30, 2010 and \$2,796,917 and \$40,820 for the fiscal year ended June 30, 2009. For fiscal year 2011, 88.36 percent has been contributed for the DB plan and 88.36 percent has been contributed for the Combined Plan, with the balance being reported as an intergovernmental payable. The full amount has been contributed for fiscal years 2010 and 2009.

Contributions made to STRS Ohio for the DC Plan for fiscal year 2011 were \$38,813 made by the School District and \$27,724 made by the plan members. In addition, member contributions of \$53,410 were made for fiscal year 2011 for the defined contribution portion of the Combined Plan.

Note 16 - Postemployment Benefits

School Employee Retirement System

Plan Description – The School District participates in two cost-sharing multiple-employer defined benefit other postemployment 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 obligation to contribute are established by SERS based on authority granted by State statute. The financial reports of both Plans are included in the SERS Comprehensive Annual Financial Report which can be obtained on SERS' website at www.ohsers.org under Employers/Audit Resources.

Funding Policy - State statute permits SERS to fund the health care benefits through employer contributions. Each year, after the allocation for statutorily required benefits, the Retirement Board allocates the remainder of the employer contribution of 14 percent of covered payroll to the Health Care Fund. The Health Care Fund was established and is administered in accordance with Internal Revenue Code Section 105(e). For fiscal year 2011, 1.43 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 fiscal year 2011, this amount was \$35,800. During fiscal year 2011, the School District paid \$102,267 in surcharge.

East Cleveland City School District

Notes to the Basic Financial Statements For the Fiscal Year Ended June 30, 2011

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, 2011, 2010 and 2009 were \$199,761, \$123,190, and \$336,445, respectively. For fiscal year 2011, 97.99 percent has been contributed, with the balance being reported as an intergovernmental payable. The full amount has been contributed for fiscal years 2010 and 2009.

The Retirement Board, acting with advice of the actuary, allocates a portion of the employer contribution to the Medicare B Fund. For fiscal year 2011, this actuarially required allocation was 0.76 percent of covered payroll. The School District's contributions for Medicare Part B for the fiscal years ended June 30, 2011, 2010 and 2009, were \$51,815, \$47,767, and \$44,512, respectively. For fiscal year 2011, 97.99 percent has been contributed, with the balance being reported as an intergovernmental payable. The full amount has been contributed for fiscal years 2010 and 2009.

State Teachers Retirement System

Plan Description – The School District participates in 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. Ohio law authorizes STRS to offer this plan. 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 can be obtained by visiting www.strsoh.org or by calling (888) 227-7877.

Funding Policy – Ohio Revised Code Chapter 3307 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 Health Care Plan. All benefit recipients, for the most recent year, pay a monthly premium. Under Ohio law, funding for post-employment health care may be deducted from employer contributions. For fiscal year 2011, STRS Ohio allocated employer contributions equal to 1 percent of covered payroll to post-employment health care. The School District's contributions for health care for the fiscal years ended June 30, 2011, 2010 and 2009 were \$221,122, \$193,969, and \$214,138, respectively. For fiscal year 2011, 88.36 percent has been contributed, with the balance being reported as an intergovernmental payable. The full amount has been contributed for fiscal years 2010 and 2009.

Note 17 – Public Entity Risk Pool

Insurance Purchasing Pool

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

East Cleveland City School District

*Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2011*

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. 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				
Capital Appreciation Bonds	1999	\$664,716	4.45-4.65%	December 1, 2011
School Improvement Refunding Bonds	2007	5,645,000	4.00-5.50%	December 1, 2020

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

	Principal Outstanding 6/30/10	Additions	(Reductions)	Principal Outstanding 6/30/11	Amount Due in One Year
Governmental Activities:					
General Obligations Bonds:					
School Improvement Bonds - 1999					
Capital Appreciation Bonds	\$430,618	\$0	(\$221,470)	\$209,148	\$209,148
Accretion on Capital Appreciation Bonds	529,262	52,198	(293,530)	287,930	287,930
School Improvement Refunding - 2007					
Serial Bonds	5,645,000	0	0	5,645,000	0
Unamortized Premium	330,251	0	(31,704)	298,547	0
Unamortized Accounting Loss	(186,949)	0	17,947	(169,002)	0
<i>Total General Obligation Bonds</i>	<u>6,748,182</u>	<u>52,198</u>	<u>(528,757)</u>	<u>6,271,623</u>	<u>497,078</u>
Compensated Absences	5,423,884	1,436,587	(1,289,498)	5,570,973	1,247,347
Total Governmental Activities	<u>\$12,172,066</u>	<u>\$1,488,785</u>	<u>(\$1,818,255)</u>	<u>\$11,842,596</u>	<u>\$1,744,425</u>

East Cleveland City School District

*Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2011*

The school improvement capital appreciation bonds were issued in 1999 and will be paid from property taxes. These bonds will be paid from the bond retirement fund. This year the addition on the capital appreciation bonds was \$52,198 which represents the annual accretion of discounted interest. The final maturity amount of the remaining capital appreciation bonds is \$515,000.

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

The refunding bonds were issued to defease the 1999 school improvement general obligation term bonds by placing the proceeds of the new bonds in an irrevocable trust to provide for all future debt service payments. Accordingly, the trust account assets and the liability for the defeased bonds are not included in the School District's financial statements. On June 30, 2011, \$5,685,000 of the defeased bonds are still outstanding.

The overall debt margin of the School District as of June 30, 2011, was \$17,183,043 with an unvoted debt margin of \$239,233.

Principal and interest requirements to retire general obligation bonds outstanding at June 30, 2011, are as follows:

	General Obligation Bonds		Capital Appreciation Bonds	
	Principal	Interest	Principal	Interest
2012	\$0	\$270,750	\$209,148	\$305,852
2013	525,000	260,250	0	0
2014	545,000	238,850	0	0
2015	570,000	216,550	0	0
2016	595,000	192,506	0	0
2017-2021	3,410,000	484,281	0	0
Total	<u>\$5,645,000</u>	<u>\$1,663,187</u>	<u>\$209,148</u>	<u>\$305,852</u>

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.

East Cleveland City School District

*Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2011*

	Textbooks Instructional Materials	Capital Improvement
Set-aside Balances as of June 30, 2010	(\$2,155,417)	(\$7,480,282)
Current Year Set-aside Requirement	509,445	509,445
Levy Proceeds Offsets	0	(73,362)
Qualifying Disbursements	(1,841,567)	(436,083)
Totals	(\$3,487,539)	(\$7,480,282)
Set-aside Balance Carried Forward to Future Fiscal Years	\$0	(\$7,480,282)
Set-aside Balances as of June 30, 2011	\$0	\$0

The School District had qualifying disbursements during the fiscal year that reduced the textbook set-aside amount below zero. Effective July 1, 2011, the textbook set aside is no longer required and has been removed from existing law. This negative balance is therefore not presented as being carried forward to future fiscal years. Further, in prior years, the School District had qualifying offsets that reduced the capital improvements set-aside amount to zero. These extra amounts may be used to reduce the set-aside requirements of future fiscal years.

Note 21 - Jointly Governed Organizations

Lakeshore Northeast Ohio Computer Association

The Lakeshore Northeast Ohio Computer Association (LNOCA) is a jointly governed computer service bureau owned and operated by eleven public school districts. The primary function of LNOCA is to provide data services to the eleven member districts. Major areas of service provided by LNOCA include accounting, payroll, inventory, career guidance services, handicapped student tracking, pupil scheduling, attendance reporting and grade reporting. Each school is represented on the LNOCA Board of Directors by its superintendent. Each year, the Board of Directors elects a Chairman, a Vice Chairman and a Recording Secretary. The Treasurer of the fiscal agent is a nonvoting, ex-officio member of the Board of Directors. The Cuyahoga County Educational Service Center serves as the fiscal agent of LNOCA. Each school district supports LNOCA based upon a per pupil charge dependent upon the software packages used. East Cleveland City School District paid \$95,570 to LNOCA during fiscal year 2011. Financial information can be obtained by contacting the Treasurer of the fiscal agent at 5811 West Canal Road, Valley View, Ohio 44125.

Ohio Schools Council

The Ohio Schools Council (Council) is a jointly governed organization among 158 school districts. The jointly governed organization was created by school districts for the purpose of saving money through volume purchases. Each district supports the Council by paying an annual participation fee. Each school district member's superintendent serves as a representative of the Assembly. The Assembly elects five of the Council's Board members and the remaining four are representatives of the Greater Cleveland School Superintendents' Association. The Council operates under a nine-member Board of Directors (the Board). The Board is the policy making authority of the Council. The Board meets monthly September to June. The Board appoints an Executive Director who is responsible for receiving and disbursing funds, investing available funds, preparing financial reports for the Board and Assembly and carrying out such other responsibilities as designated by the Board. In fiscal year 2011, the School District paid \$832 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.

East Cleveland City School District

*Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2011*

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

Note 22 - Operating Lease

In prior fiscal years, the School District entered into an operating lease with City Management Group, Limited, for the purpose of leasing a bus garage and warehouse to house the School District's buses and maintenance equipment. This is a cancelable lease that is renewed annually. The School District pays \$2,250 per month. For fiscal year 2011, 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
FEDERAL AWARDS RECEIPTS AND EXPENDITURES SCHEDULE
FOR THE YEAR ENDED JUNE 30, 2011**

FEDERAL GRANTOR <i>Pass Through Grantor</i> Program Title	Federal CFDA Number	Receipts	Disbursements
UNITED STATES DEPARTMENT OF AGRICULTURE			
<i>Passed Through Ohio Department of Education:</i>			
Child Nutrition Cluster:			
Non-Cash Assistance (Food Distribution):			
National School Lunch Program	10.555	\$58,686	\$58,686
Cash Assistance:			
National School Lunch Program	10.555	1,204,067	1,204,067
School Breakfast Program	10.553	385,477	385,477
Summer Food Service Program for Children	10.559	33,275	33,275
Cash Assistance Subtotal		<u>1,622,819</u>	<u>1,622,819</u>
Total Child Nutrition Cluster		<u>1,681,505</u>	<u>1,681,505</u>
Fresh Fruit and Vegetable Program	10.582	85,212	85,212
Total U.S. Department of Agriculture		<u>1,766,717</u>	<u>1,766,717</u>
U.S. DEPARTMENT OF DEFENSE			
<i>Direct Assistance:</i>			
Junior ROTC	12.000	46,260	46,260
Total U.S. Department of Defense		<u>46,260</u>	<u>46,260</u>
U. S. DEPARTMENT OF EDUCATION			
<i>Passed Through Ohio Department of Education:</i>			
Title I, Part A Cluster:			
Title I Grants to Local Educational Agencies	84.010	4,789,921	5,180,014
ARRA - Title I Grants to Local Educational Agencies, Recovery Act	84.389	1,765,015	1,412,486
Total Title I, Part A Cluster		<u>6,554,936</u>	<u>6,592,500</u>
Special Education Cluster:			
Special Education Grants to States	84.027	1,074,945	899,061
ARRA - Special Education Grants to States, Recovery Act	84.391	519,886	514,872
Special Education Preschool Grants	84.173	17,214	24,243
ARRA - Special Education Preschool Grants, Recovery Act	84.392	33,564	0
Total Special Education Cluster		<u>1,645,609</u>	<u>1,438,176</u>
Career and Technical Education - Basic Grants to States	84.048	188,057	165,131
ARRA - Education for Homeless Children and Youth, Recovery Act	84.387	2,844	2,844
Safe and Drug-Free Schools and Communities - State Grants	84.186	0	7,771
Education Technology State Grants	84.318	16,382	10,373
Reading First State Grants	84.357	996,618	869,266
Improving Teacher Quality State Grants	84.367	839,289	507,607
Education Jobs Fund	84.410	901,377	879,182
School Improvement Grants	84.377	60,000	60,000
ARRA - State Fiscal Stabilization Fund (SFSF) - Education State Grants, Recovery Act	84.394	2,729,599	2,729,599
Total Pass Through Ohio Department of Education		<u>13,934,711</u>	<u>13,262,449</u>
Total U.S. Department of Education		<u>13,934,711</u>	<u>13,262,449</u>
Total Federal Assistance		<u>\$15,747,688</u>	<u>\$15,075,426</u>

**EAST CLEVELAND CITY SCHOOL DISTRICT
CUYAHOGA COUNTY
NOTES TO THE FEDERAL AWARDS RECEIPTS AND EXPENDITURES SCHEDULE
FISCAL YEAR ENDED JUNE 30, 2011**

NOTE A - SIGNIFICANT ACCOUNTING POLICIES

The accompanying Federal Awards Receipts and Expenditures Schedule (the Schedule) reports the East Cleveland City School District's (the District) federal award programs' receipts and disbursements. 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

The District reports commodities consumed on the Schedule at the fair value. The District allocated donated food commodities to the respective programs that benefitted from the use of those donated food commodities.

NOTE D - MATCHING REQUIREMENTS

Certain Federal programs require the District to contribute non-Federal funds (matching funds) to support the Federally-funded programs. The District has met its matching requirements. The Schedule does not include the expenditure of non-Federal matching funds.

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

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

To the Board of Education:

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, 2011, which collectively comprise the District's basic financial statements and have issued our report thereon dated June 22, 2012, wherein we noted the District implemented Governmental Accounting Standards Board Statement No. 54, "Fund Balance Reporting and Governmental Fund Type Definitions" and restated the June 30, 2010 fund balances of the Governmental Funds due to a change in fund structure. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the Comptroller General of the United States' *Government Auditing Standards*.

Internal Control Over Financial Reporting

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

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

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

Compliance and Other Matters

As part of reasonably assuring whether the District's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could directly and materially affect the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and accordingly, we do not express an opinion. The results of our tests disclosed no instances of noncompliance or other matters we must report under *Government Auditing Standards*.

We did note certain matters not requiring inclusion in this report that we reported to the District's management in a separate letter dated June 22, 2012.

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 and others within the District. We intend it for no one other than these specified parties.

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

Dave Yost
Auditor of State

June 22, 2012



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

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

To the Board of Education:

Compliance

We have audited the compliance of East Cleveland City School District, Cuyahoga County, Ohio, (the District) with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133, Compliance Supplement* that could directly and materially affect each of the District's major federal programs for the year ended June 30, 2011. 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 opine on the District's compliance based on our audit.

Our compliance audit followed 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*. These 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 these 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 these requirements

As described in finding 2011-01 in the accompanying schedule of findings, the District did not comply with requirements regarding suspension and debarment applicable to its Title I Cluster and Special Education Cluster major federal programs. Compliance with this requirement is necessary, in our opinion, for the District to comply with requirements applicable to these programs.

In our opinion, except for the noncompliance described in the preceding paragraph, the East Cleveland City School District complied, in all material respects, with the requirements referred to above that could directly and materially affect each of its major federal programs for the year ended June 30, 2011.

Internal Control Over Compliance

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

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

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. We consider the deficiency in internal control over compliance described in the accompanying schedule of findings as item 2011-01 to be a material weakness.

The District's response to the finding we identified 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 also noted a matter involving federal compliance or internal controls over federal compliance not requiring inclusion in this report, that we reported to the District management in a separate letter dated June 22, 2012

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



Dave Yost
Auditor of State

June 22, 2012

**EAST CLEVELAND CITY SCHOOL DISTRICT
CUYAHOGA COUNTY**

**SCHEDULE OF FINDINGS
OMB CIRCULAR A -133 § .505
FOR THE FISCAL YEAR ENDED JUNE 30, 2011**

1. SUMMARY OF AUDITOR'S RESULTS

(d)(1)(i)	Type of Financial Statement Opinion	Unqualified
(d)(1)(ii)	Were there any material control weaknesses reported at the financial statement level (GAGAS)?	No
(d)(1)(ii)	Were there any significant deficiencies in internal control reported at the financial statement level (GAGAS)?	No
(d)(1)(iii)	Was there any reported material noncompliance at the financial statement level (GAGAS)?	No
(d)(1)(iv)	Were there any material internal control weaknesses reported for major federal programs?	Yes
(d)(1)(iv)	Were there any significant deficiencies in internal control reported for major federal programs?	No
(d)(1)(v)	Type of Major Programs' Compliance Opinion	Unqualified for all major programs except for the Special Education Cluster and Title I Cluster federal program which were qualified
(d)(1)(vi)	Are there any reportable findings under § .510(a)?	No

**EAST CLEVELAND CITY SCHOOL DISTRICT
CUYAHOGA COUNTY**

**SCHEDULE OF FINDINGS
OMB CIRCULAR A -133 § .505
FOR THE FISCAL YEAR ENDED JUNE 30, 2011
(CONTINUED)**

1. SUMMARY OF AUDITOR'S RESULTS

(Continued)

(d)(1)(vii)	Major Programs (list):	<p>Special Education Cluster: CFDA #84.027 – Special Education Grants to States CFDA #84.173 – Special Education Preschool Grants CFDA #84.391 – ARRA - Special Education Grants to States, Recovery Act CFDA #84.392 – ARRA – Special Education Preschool Grants, Recovery Act CFDA #84.394 – ARRA – State Fiscal Stabilization Fund – Education State Grants, Recovery Act Title I Cluster: CFDA #84.010 – Title I Grants to Local Educational Agencies CFDA #84.389 – ARRA – Title I Grants to Local Educational Agencies, Recovery Act CFDA #84.357 – Reading First State Grants CFDA #84.410 – Education Jobs Fund</p>
(d)(1)(viii)	Dollar Threshold: Type A/B Programs	Type A: > \$ 452,262 Type B: all others
(d)(1)(ix)	Low Risk Auditee?	No

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

None

**EAST CLEVELAND CITY SCHOOL DISTRICT
CUYAHOGA COUNTY**

**SCHEDULE OF FINDINGS
OMB CIRCULAR A -133 § .505
FOR THE FISCAL YEAR ENDED JUNE 30, 2011
(CONTINUED)**

3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS
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1. Material Weakness and Material Noncompliance Finding

Finding Number	2011-01
CFDA Title and Number	Special Education Cluster: CFDA #84.027 – Special Education Grants to States CFDA #84.173 – Special Education Preschool Grants CFDA #84.391 – ARRA - Special Education Grants to States, Recovery Act CFDA #84.392 – ARRA – Special Education Preschool Grants, Recovery Act Title I Cluster: CFDA #84.010 – Title I Grants to Local Educational Agencies CFDA #84.389 – ARRA – Title I Grants to Local Educational Agencies, Recovery Act
Year	2011
Federal Agency	U. S. Department of Education
Pass-Through Agency	Ohio Department of Education

2 CFR 180.300 states that Non-Federal entities are prohibited from contracting with or making subawards under covered transactions to parties that are suspended or debarred or whose principals are suspended or debarred. “Covered transactions” include those procurement contracts for goods and services awarded under a nonprocurement transaction (e.g., grant or cooperative agreement) that are expected to equal or exceed \$25,000 or meet certain other specified criteria. 2 CFR section 180.220 of the governmentwide nonprocurement debarment and suspension guidance contains those additional limited circumstances. All nonprocurement transactions (i.e., subawards to subrecipients), irrespective of award amount, are considered covered transactions.

When a non-Federal entity enters into a covered transaction with an entity at a lower tier, the non-Federal entity must verify that the entity is not suspended or debarred or otherwise excluded. This verification may be accomplished by checking the Excluded Parties List System (EPLS) maintained by the General Services Administration (GSA), collecting a certification from the entity, or adding a clause or condition to the covered transactions with that entity.

During a test of non-payroll expenditures for the Special Education Cluster and Title I Cluster federal programs, we noted 11 payments (five Special Education Cluster and six Title I Cluster) of more than \$25,000 were made to vendors and there was no evidence the District verified the vendors were not suspended or disbarred by checking the Excluded Parties List System (EPLS) maintained by the General Services Administration (GSA), collecting a certification from the entity, or adding a clause or condition to the covered transaction with the vendor.

EAST CLEVELAND CITY SCHOOL DISTRICT
CUYAHOGA COUNTY

SCHEDULE OF FINDINGS
OMB CIRCULAR A -133 § .505
FOR THE FISCAL YEAR ENDED JUNE 30, 2011
(CONTINUED)

3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS

1. Material Weakness and Material Noncompliance Finding

Finding Number	2011-01
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(Continued)

In order to comply with this requirement, the District had directed the business manager to include certification language in the vendor contracts but he failed to do so. As a result, the District did not verify the vendors were not suspended or debarred and not eligible for federal funds. We subsequently determined the vendors were not suspended or debarred and were eligible for federal funds.

We recommend that prior to contracting with vendors that will be paid with federal funds the District should verify the vendor is not suspended or debarred by checking the Excluded Parties List System (EPLS) maintained by the General Services Administration (GSA), collecting a certification from the vendor, or adding a clause or condition to the covered transaction with the vendor.

District's Response

For those vendors who do not submit a formal contract covering the scope of their services to be rendered to the East Cleveland City School District, a Third party Agreement is prepared that contains the following language requiring the appropriate United States Treasury Department, Internal Revenue Service Form W-9 and non-disbarment certification:

Federal Form W-9 (Department of the U.S. Treasury, Internal Revenue Service) Certification from the *"Excluded Parties List System (EPLS)"* maintained by the General Services Administration (GSA), verifying that you are not disbarred or suspended from doing business where you would collect federal funds.

For those vendors submitting a formal contract, the contract must contain a certification of non-disbarment

**EAST CLEVELAND CITY SCHOOL DISTRICT
CUYAHOGA COUNTY**

**SCHEDULE OF PRIOR AUDIT FINDINGS AND QUESTIONED COSTS
OMB CIRCULAR A -133 § .315 (b)
FOR THE FISCAL YEAR ENDED JUNE 30, 2011**

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; <i>Explain</i>
2010-01	Portion of Treasurer's salary and benefits improperly paid from ARRA - State Fiscal Stabilization Fund, Recovery Act – CFDA #84.394	Yes	
2010-02	Portion of Superintendent's salary and benefits improperly paid from ARRA - State Fiscal Stabilization Fund, Recovery Act – CFDA #84.394	Yes	
2010-03	Prior period Medicaid Program overpayment incorrectly repaid from the Special Education Cluster	Yes	

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INDEPENDENT ACCOUNTANTS' REPORT ON APPLYING AGREED-UPON PROCEDURES

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

To the Board of Education:

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

We noted the Board amended its anti-harassment policy at its meeting on May 22, 2012 to include violence within a dating relationship within its definition of harassment, intimidation or bullying.

Ohio Rev. Code Section 3313.666 required the Board to amend its definition by September 28, 2010.

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 Board of Education and is not intended to be and should not be used by anyone other than these specified parties.

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

Dave Yost
Auditor of State

June 8, 2012

Lausche Building / 615 Superior Ave., NW / Twelfth Floor / Cleveland, OH 44113-1801

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www.auditor.state.oh.us

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Dave Yost • Auditor of State

EAST CLEVELAND CITY SCHOOL DISTRICT

CUYAHOGA COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
JULY 05, 2012**