



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  
1843 Stanwood Road  
East Cleveland, Ohio 44112-2707

To the Board of Education:

We have audited the accompanying financial statements of the governmental activities, the 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, 2012, 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, the major fund, and the aggregate remaining fund information of the East Cleveland City School District, Cuyahoga County, Ohio, as of June 30, 2012, and the respective changes in financial position, thereof and the budgetary comparison for the General Fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated May 29, 2013, 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

May 29, 2013

**East Cleveland City School District**  
*Management's Discussion and Analysis*  
*For the Fiscal Year Ended June 30, 2012*  
*Unaudited*

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The discussion and analysis of the East Cleveland City School District's (the School District) financial performance provides an overall review of the School District's financial activities for the fiscal year ended June 30, 2012. 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 2012 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 \$14,889,159 accounted for the remainder of all revenues.
- Although expenses increased only slightly, revenues decreased due to less grant funding in fiscal year 2012.
- The balance in the School District's governmental funds decreased from the prior year. This decrease is due to expenditures exceeding revenues at a greater rate than in the prior fiscal year.

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

This annual report consists of a series of financial statements and notes to those statements. These statements are presented following the requirements of Governmental Accounting Standards Board ("GASB") Statement No. 34, and are organized so the reader can understand the East Cleveland City School District as a financial whole, 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.

### **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 2012?" 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.

**East Cleveland City School District**  
*Management's Discussion and Analysis*  
*For the Fiscal Year Ended June 30, 2012*  
*Unaudited*

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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 8. 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 fund is General Fund.

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

### **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 2012 compared to fiscal year 2011:

**East Cleveland City School District**  
*Management's Discussion and Analysis*  
*For the Fiscal Year Ended June 30, 2012*  
*Unaudited*

**Table 1**  
 Net Assets

	Governmental Activities		
	2012	2011 (Restated)	Change
<b>Assets</b>			
Current and Other Assets	\$58,478,796	\$60,976,924	(\$2,498,128)
Capital Assets, Net	83,518,050	87,108,037	(3,589,987)
<i>Total Assets</i>	<u>141,996,846</u>	<u>148,084,961</u>	<u>(6,088,115)</u>
<b>Liabilities</b>			
Current and Other Liabilities	11,730,652	11,793,897	63,245
Long-Term Liabilities:			
Due Within One Year	1,829,132	1,744,425	(84,707)
Due in More than One Year	8,976,335	10,098,171	1,121,836
<i>Total Liabilities</i>	<u>22,536,119</u>	<u>23,636,493</u>	<u>1,100,374</u>
<b>Net Assets</b>			
Invested in Capital Assets, Net of Debt	77,925,563	81,312,642	(3,387,079)
Restricted:			
Capital Projects	1,463,078	1,369,433	93,645
Debt Service	2,946,964	3,284,897	(337,933)
Other Purposes	3,756,166	2,379,394	1,376,772
Unrestricted	33,368,956	36,102,102	(2,733,146)
<i>Total</i>	<u>\$119,460,727</u>	<u>\$124,448,468</u>	<u>(\$4,987,741)</u>

The net assets decreased from 2011 to 2012. The decrease is attributable to the decrease in capital assets as of result of depreciation on capital assets outpacing additions during the year. There were decreases in available cash on hand and grants receivable as the School District received less grants compared to fiscal year 2011.

**East Cleveland City School District**  
*Management's Discussion and Analysis*  
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*Unaudited*

Table 2 shows the changes in net assets for the fiscal year ended June 30, 2012 compared to fiscal year 2011.

**Table 2**  
Change in Net Assets

	Governmental Activities		
	2012	2011	Change
<b>Revenues</b>			
Program Revenues:			
Charges for Services and Sales	\$3,798,872	\$4,345,711	(\$546,839)
Operating Grants and Contributions and Interest	11,090,287	15,761,470	(4,671,183)
<i>Total Program Revenues</i>	<u>14,889,159</u>	<u>20,107,181</u>	<u>(5,218,022)</u>
General Revenues:			
Property Taxes	9,800,762	6,982,076	2,818,686
Grants and Entitlements	36,069,614	35,210,970	858,644
Investment Earnings	206,817	299,320	(92,503)
Unrestricted Contributions and Donations	10,369	10,682	(313)
Miscellaneous	1,437,546	980,573	456,973
<i>Total General Revenues</i>	<u>47,525,108</u>	<u>43,483,621</u>	<u>4,041,487</u>
<b>Total Revenues</b>	<u>62,414,267</u>	<u>63,590,802</u>	<u>(1,176,535)</u>
<b>Program Expenses</b>			
Instruction	39,499,900	38,076,151	(1,423,749)
Support Services:			
Pupil	3,820,719	4,141,138	320,419
Instructional Staff	5,685,135	4,813,879	(871,256)
Board of Education	53,429	52,061	(1,368)
Administration	4,347,732	4,571,345	223,613
Fiscal	2,389,736	2,729,224	339,488
Business	267,912	476,437	208,525
Operation and Maintenance of Plant	4,951,735	5,733,546	781,811
Pupil Transportation	1,212,484	1,221,218	8,734
Central	2,583,656	2,906,628	322,972
Operation of Non-Instructional Services:			
Food Services Operations	1,582,594	1,597,206	14,612
Other Non-Instructional Services	186,584	193,108	6,524
Extracurricular Activities	525,480	439,433	(86,047)
Interest and Fiscal Charges	294,912	329,188	34,276
<b>Total Program Expenses</b>	<u>67,402,008</u>	<u>67,280,562</u>	<u>(121,446)</u>
<i>Change in Net Assets</i>	(4,987,741)	(3,689,760)	(1,297,981)
<i>Net Assets Beginning of Year (Restated)</i>	<u>124,448,468</u>	<u>128,138,228</u>	<u>(3,689,760)</u>
<i>Net Assets End of Year</i>	<u>\$119,460,727</u>	<u>\$124,448,468</u>	<u>(\$4,987,741)</u>

**East Cleveland City School District**  
*Management's Discussion and Analysis*  
*For the Fiscal Year Ended June 30, 2012*  
*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 2012. Charges for services, investments and miscellaneous revenue made up the remainder of total revenues. The decrease in revenues is the result of less grant funding for special education available in fiscal year 2012, offset by an increase in property tax revenues.

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

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

**Table 3**  
 Net Cost of Governmental Activities

	Total Cost of Services 2012	Total Cost of Services 2011	Net Cost of Services 2012	Net Cost of Services 2011
Instruction	\$39,499,900	\$38,076,151	\$35,161,691	\$28,892,165
Support Services:				
Pupils	3,820,719	4,141,138	2,259,683	2,216,450
Instructional Staff	5,685,135	4,813,879	1,040,918	966,267
Board of Education	53,429	52,061	49,660	47,521
Administration	4,347,732	4,571,345	2,849,705	2,835,188
Fiscal	2,389,736	2,729,224	1,954,858	2,054,935
Business	267,912	476,437	249,037	436,744
Operation and Maintenance of Plant	4,951,735	5,733,546	4,586,055	5,233,869
Pupil Transportation	1,212,484	1,221,218	1,048,021	1,057,137
Central	2,583,656	2,906,628	2,393,225	2,630,804
Operation of Non-Instructional Services:				
Food Service Operations	1,582,594	1,597,206	13,780	(49,599)
Other Non-Instructional Services	186,584	193,108	144,155	142,542
Extracurricular Activities	525,480	439,433	467,149	380,170
Interest and Fiscal Charges	294,912	329,188	294,912	329,188
<i>Total</i>	<u>\$67,402,008</u>	<u>\$67,280,562</u>	<u>\$52,512,849</u>	<u>\$47,173,381</u>

The dependence on tax revenues and State subsidies for governmental activities is apparent. For all governmental activities, general revenues support is 76.14 percent.

**East Cleveland City School District**  
*Management's Discussion and Analysis*  
*For the Fiscal Year Ended June 30, 2012*  
*Unaudited*

**The School District's Funds**

Information about the School District's governmental funds starts on page 13. These funds are accounted for using the modified accrual basis of accounting. All governmental funds had total revenues of \$61,700,570 and expenditures of \$64,829,153. The net change in fund balance for the fiscal year 2012 in the general fund was a decrease of \$4,459,484, due to an increase in instructional and support services expenditures being partially offset by increases in intergovernmental and miscellaneous revenues. The net change in fund balances for the year in all other governmental funds was an increase of \$1,330,901, 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 2012, the School District amended its general fund budget several times. The general fund final budgeted and actual revenue amounts were in the amount of \$47,877,135, which exceeded the original budgeted revenues of \$46,622,404 by \$1,254,731. 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 \$55,927,059 were \$1,207,650 higher than actual expenditures of \$54,719,409 and \$514,341 higher than original budgeted expenditures of \$55,412,718. The School District ended the current fiscal year with a decrease in fund balance over fiscal year 2011.

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.

**Capital Assets and Debt Administration**

*Capital Assets*

Table 4 shows fiscal year 2012 balances compared to fiscal year 2011.

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

	Governmental Activities	
	2012	2011 (Restated)
Land	\$2,389,900	\$2,389,900
Land Improvements	1,592,999	1,723,389
Buildings and Improvements	75,511,575	77,830,760
Furniture and Equipment	3,460,781	4,516,031
Vehicles	138,128	127,577
Textbooks	424,667	520,380
	\$83,518,050	\$87,108,037

**East Cleveland City School District**  
*Management's Discussion and Analysis*  
*For the Fiscal Year Ended June 30, 2012*  
*Unaudited*

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 2012, Ohio law required school districts to expend or otherwise reserve three percent of qualifying revenues for the purpose of capital improvements. For fiscal year 2012, this amounted to \$558,155. The School District had qualifying disbursements exceeding these requirements. See Note 20 for additional set-aside information.

**Debt**

At June 30, 2012, the School District had the following outstanding debt:

**Table 5**  
 Outstanding Debt at June 30

	Governmental Activities	
	2012	2011
General Obligation Bonds:		
1999 Capital Appreciation Bonds	\$0	\$209,148
Accretion on 1999 Capital Appreciation Bonds	0	287,930
2007 School Improvement Refunding Bonds	5,760,788	5,774,545
Totals	<u>\$5,760,788</u>	<u>\$6,271,623</u>

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 \$17,080,657 with an unvoted debt margin of \$232,128. 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.

**East Cleveland City School District**  
*Management's Discussion and Analysis*  
*For the Fiscal Year Ended June 30, 2012*  
*Unaudited*

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***Challenges and Opportunities***

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

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

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

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

This financial report is designed to provide our citizens, taxpayers, investors and creditors with a general overview of the School District's finances and to show the School District's accountability for the money it receives. If you have any questions about this report or need additional financial information, contact the Treasurer of East Cleveland City School District, 1843 Stanwood Road, East Cleveland, OH 44112-2901.

**East Cleveland City School District**

*Statement of Net Assets*

*June 30, 2012*

	<u>Governmental Activities</u>
<b>Assets</b>	
Equity in Pooled Cash and Cash Equivalents	\$39,023,841
Cash and Cash Equivalents in Segregated Accounts	7,874
Accounts Receivable	9,872
Intergovernmental Receivable	308,383
Materials and Supplies Inventory	12,632
Property Taxes Receivable	18,947,893
Deferred Charges	168,301
Nondepreciable Capital Assets	2,389,900
Depreciable Capital Assets	81,128,150
<i>Total Assets</i>	<u>141,996,846</u>
<b>Liabilities</b>	
Accounts Payable	521,237
Accrued Wages and Benefits Payable	3,530,357
Intergovernmental Payable	927,877
Deferred Revenue	6,362,033
Matured Compensated Absences Payable	344,023
Accrued Interest Payable	45,125
Long-Term Liabilities:	
Due Within One Year	1,829,132
Due in More Than One Year	8,976,335
<i>Total Liabilities</i>	<u>22,536,119</u>
<b>Net Assets</b>	
Invested in Capital Assets, Net of Related Debt	77,925,563
Restricted for:	
Capital Projects	1,463,078
Debt Service	2,946,964
Food Service	1,049,764
Student Services	302,856
Other Purposes	2,044,525
Unclaimed Monies	359,021
Unrestricted	33,368,956
<i>Total Net Assets</i>	<u><u>\$119,460,727</u></u>

See accompanying notes to the basic financial statements

**East Cleveland City School District**

*Statement of Activities*

*For the Fiscal Year Ended June 30, 2012*

	Program Revenues			Net (Expense) Revenue and Changes in Net Assets
Governmental Activities	Expenses	Charges for Services and Sales	Operating Grants and Contributions	Governmental Activities
<b>Governmental Activities</b>				
Instruction:				
Regular	\$20,290,754	\$1,154,268	\$143,159	(\$18,993,327)
Special	11,481,143	676,048	1,822,491	(8,982,604)
Vocational	1,697,660	119,455	1,838	(1,576,367)
Adult/Continuing	62,383	0	0	(62,383)
Student Intervention Services	5,967,960	420,950	0	(5,547,010)
Support Services:				
Pupil	3,820,719	176,948	1,384,088	(2,259,683)
Instructional Staff	5,685,135	91,308	4,552,909	(1,040,918)
Board of Education	53,429	3,769	0	(49,660)
Administration	4,347,732	221,116	1,276,911	(2,849,705)
Fiscal	2,389,736	151,633	283,245	(1,954,858)
Business	267,912	18,875	0	(249,037)
Operation and Maintenance of Plant	4,951,735	363,200	2,480	(4,586,055)
Pupil Transportation	1,212,484	79,156	85,307	(1,048,021)
Central	2,583,656	177,831	12,600	(2,393,225)
Operation of Non-Instructional Services:				
Food Service Operations	1,582,594	81,112	1,487,702	(13,780)
Other Non-Instructional Services	186,584	4,872	37,557	(144,155)
Extracurricular Activities	525,480	58,331	0	(467,149)
Interest and Fiscal Charges	294,912	0	0	(294,912)
<i>Total Governmental Activities</i>	<b>\$67,402,008</b>	<b>\$3,798,872</b>	<b>\$11,090,287</b>	<b>(52,512,849)</b>
<b>General Revenues</b>				
Property Taxes Levied for:				
General Purposes				8,848,913
Debt Service				855,317
Capital Outlay				96,532
Grants and Entitlements not Restricted to Specific Programs				36,069,614
Investment Earnings				206,817
Unrestricted Contributions and Donations				10,369
Miscellaneous				1,437,546
<i>Total General Revenues</i>				47,525,108
Change in Net Assets				(4,987,741)
<i>Net Assets Beginning of Year- Restated (See Note 3)</i>				124,448,468
<i>Net Assets End of Year</i>				\$119,460,727

See accompanying notes to the basic financial statements

**East Cleveland City School District**

*Balance Sheet*

*Governmental Funds*

*June 30, 2012*

	<u>General</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
<b>Assets</b>			
Equity in Pooled Cash and Cash Equivalents	\$29,717,931	\$8,946,889	\$38,664,820
Cash and Cash Equivalents in Segregated Accounts	4,347	3,527	7,874
Restricted Assets:			
Equity in Pooled Cash and Cash Equivalents	359,021	0	359,021
Accounts Receivable	9,872	0	9,872
Intergovernmental Receivable	102	308,281	308,383
Materials and Supplies Inventory	0	12,632	12,632
Interfund Receivable	1,420,854	288,998	1,709,852
Property Taxes Receivable	16,916,742	2,031,151	18,947,893
<i>Total Assets</i>	<u>\$48,428,869</u>	<u>\$11,591,478</u>	<u>\$60,020,347</u>
<b>Liabilities and Fund Balances</b>			
<b>Liabilities</b>			
Accounts Payable	\$436,090	\$85,147	\$521,237
Accrued Wages and Benefits Payable	3,000,724	529,633	3,530,357
Intergovernmental Payable	717,373	210,504	927,877
Interfund Payable	0	1,709,852	1,709,852
Deferred Revenue	15,774,574	2,191,408	17,965,982
Matured Compensated Absences Payable	267,519	76,504	344,023
<i>Total Liabilities</i>	<u>20,196,280</u>	<u>4,803,048</u>	<u>24,999,328</u>
<b>Fund Balances</b>			
Nonspendable	359,021	12,632	371,653
Restricted	0	7,150,371	7,150,371
Assigned	6,095,688	0	6,095,688
Unassigned (Deficit)	21,777,880	(374,573)	21,403,307
<i>Total Fund Balances</i>	<u>28,232,589</u>	<u>6,788,430</u>	<u>35,021,019</u>
<i>Total Liabilities and Fund Balances</i>	<u>\$48,428,869</u>	<u>\$11,591,478</u>	<u>\$60,020,347</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, 2012*

<b>Total Governmental Funds Balances</b>		\$35,021,019
 <i>Amounts reported for governmental activities in the statement of net assets are different because</i>		
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.		83,518,050
Other long-term assets are not available to pay for current- period expenditures and therefore are deferred in the funds:		
Delinquent Property Taxes	11,296,968	
Intergovernmental	<u>306,981</u>	
Total		11,603,949
Bond issuance costs will be amortized over the life of the bonds on the statement of net assets.		168,301
In the statement of activities, interest is accrued on outstanding bonds, whereas in governmental funds, an interest expenditure is reported when due.		(45,125)
Long-term liabilities are not due and payable in the current period and therefore are not reported in the funds:		
General Obligation Bonds	(5,760,788)	
Compensated Absences	<u>(5,044,679)</u>	
Total		<u>(10,805,467)</u>
<i>Net Assets of Governmental Activities</i>		<u><u>\$119,460,727</u></u>

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, 2012*

	General	Other Governmental Funds	Total Governmental Funds
<b>Revenues</b>			
Property Taxes	\$7,368,792	\$769,482	\$8,138,274
Intergovernmental	35,728,197	12,328,050	48,056,247
Interest	206,769	48	206,817
Charges for Services	0	81,554	81,554
Tuition and Fees	3,675,024	0	3,675,024
Rentals	550	0	550
Extracurricular Activities	12,251	29,493	41,744
Contributions and Donations	10,369	52,445	62,814
Miscellaneous	1,423,601	13,945	1,437,546
<i>Total Revenues</i>	<u>48,425,553</u>	<u>13,275,017</u>	<u>61,700,570</u>
<b>Expenditures</b>			
Current:			
Instruction:			
Regular	16,762,700	98,656	16,861,356
Special	9,661,334	1,933,311	11,594,645
Vocational	1,688,938	4,110	1,693,048
Adult/Continuing	62,383	0	62,383
Student Intervention Services	5,967,960	0	5,967,960
Support Services:			
Pupil	2,453,200	1,388,169	3,841,369
Instructional Staff	1,300,179	4,371,936	5,672,115
Board of Education	53,429	0	53,429
Administration	3,243,547	1,187,547	4,431,094
Fiscal	2,186,215	239,988	2,426,203
Business	293,718	0	293,718
Operation and Maintenance of Plant	4,976,595	148,219	5,124,814
Pupil Transportation	1,113,365	83,086	1,196,451
Central	2,543,172	20,437	2,563,609
Operation of Non-Instructional Services:			
Food Service Operations	0	1,624,246	1,624,246
Other Non-Instructional Services	69,071	37,710	106,781
Extracurricular Activities	302,271	202,911	505,182
Capital Outlay	25,000	0	25,000
Debt Service:			
Principal Retirement	0	209,148	209,148
Capital Appreciation Bonds Interest	0	305,852	305,852
Interest and Fiscal Charges	0	270,750	270,750
<i>Total Expenditures</i>	<u>52,703,077</u>	<u>12,126,076</u>	<u>64,829,153</u>
<i>Excess of Revenues Over (Under) Expenditures</i>	<u>(4,277,524)</u>	<u>1,148,941</u>	<u>(3,128,583)</u>
<b>Other Financing Sources (Uses)</b>			
Transfers In	0	181,960	181,960
Transfers Out	(181,960)	0	(181,960)
<i>Total Other Financing Sources (Uses)</i>	<u>(181,960)</u>	<u>181,960</u>	<u>0</u>
<i>Net Change in Fund Balances</i>	(4,459,484)	1,330,901	(3,128,583)
<i>Fund Balances Beginning of Year - Restated (See Note 3)</i>	<u>32,692,073</u>	<u>5,457,529</u>	<u>38,149,602</u>
<i>Fund Balances End of Year</i>	<u>\$28,232,589</u>	<u>\$6,788,430</u>	<u>\$35,021,019</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, 2012*

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**Net Change in Fund Balances -Total Governmental Funds** (\$3,128,583)

*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	242,229	
Current Year Depreciation	<u>(3,832,216)</u>	
Total		(3,589,987)

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

Delinquent Property Taxes	1,662,488	
Intergovernmental	<u>(948,791)</u>	
Total		713,697

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	(17,922)	
Amortization of Bond Premium	31,704	
Amortization of Accounting Loss	(17,947)	
Amortization of Bond Issuance Costs	<u>(19,997)</u>	
Total		(24,162)

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. 526,294

*Change in Net Assets of Governmental Activities* (\$4,987,741)

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, 2012*

	Budgeted Amounts			Variance with Final Budget Positive (Negative)
	Original	Final	Actual	
<b>Revenues</b>				
Property Taxes	\$7,241,333	\$7,416,947	\$7,416,947	\$0
Intergovernmental	34,059,484	35,728,095	35,728,095	0
Interest	401,247	166,826	166,826	0
Tuition and Fees	4,372,463	3,675,024	3,675,024	0
Rentals	3,004	550	550	0
Extracurricular Activities	10,362	12,251	12,251	0
Contributions and Donations	12,701	10,369	10,369	0
Miscellaneous	521,810	867,073	867,073	0
<i>Total Revenues</i>	<u>46,622,404</u>	<u>47,877,135</u>	<u>47,877,135</u>	<u>0</u>
<b>Expenditures</b>				
Current:				
Instruction:				
Regular	35,605,500	17,420,262	16,421,008	999,254
Special	4,269,838	10,394,326	10,394,326	0
Vocational	348,608	1,659,583	1,659,583	0
Adult/Continuing	210	62,383	62,383	0
Student Intervention Services	4,685,183	5,968,030	5,968,030	0
Support Services:				
Pupil	75,939	2,436,320	2,436,320	0
Instructional Staff	168,592	1,344,103	1,344,103	0
Board of Education	159,376	159,200	60,600	98,600
Administration	901,021	3,345,756	3,345,756	0
Fiscal	1,258,763	2,350,926	2,350,926	0
Business	525,054	523,129	413,333	109,796
Operation and Maintenance of Plant	4,018,003	5,623,942	5,623,942	0
Pupil Transportation	987,335	1,288,919	1,288,919	0
Central	2,378,531	2,954,224	2,954,224	0
Operation of Non-Instructional Services:				
Other Non-Instructional Services	3,947	69,071	69,071	0
Extracurricular Activities	1,300	301,885	301,885	0
Capital Outlay	25,518	25,000	25,000	0
<i>Total Expenditures</i>	<u>55,412,718</u>	<u>55,927,059</u>	<u>54,719,409</u>	<u>1,207,650</u>
<i>Excess of Revenues Under Expenditures</i>	<u>(8,790,314)</u>	<u>(8,049,924)</u>	<u>(6,842,274)</u>	<u>1,207,650</u>
<b>Other Financing Sources (Uses)</b>				
Advances In	7,472,923	2,754,287	2,754,287	0
Advances Out	(4,492,923)	(4,496,923)	(1,670,024)	2,826,899
Transfers Out	(159,000)	(181,960)	(181,960)	0
<i>Total Other Financing Sources (Uses)</i>	<u>2,821,000</u>	<u>(1,924,596)</u>	<u>902,303</u>	<u>2,826,899</u>
<i>Net Change in Fund Balance</i>	<u>(5,969,314)</u>	<u>(9,974,520)</u>	<u>(5,939,971)</u>	<u>4,034,549</u>
<i>Fund Balance Beginning of Year</i>	<u>30,964,855</u>	<u>30,964,855</u>	<u>30,964,855</u>	<u>0</u>
Prior Year Encumbrances Appropriated	<u>2,252,631</u>	<u>2,252,631</u>	<u>2,252,631</u>	<u>0</u>
<i>Fund Balance End of Year</i>	<u>\$27,248,172</u>	<u>\$23,242,966</u>	<u>\$27,277,515</u>	<u>\$4,034,549</u>

See accompanying notes to the basic financial statements

**East Cleveland City School District**  
*Statement of Fiduciary Assets and Liabilities*  
*Agency Funds*  
*June 30, 2012*

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	<u>Agency</u>
<b>Assets</b>	
Equity in Pooled Cash and Cash Equivalents	<u>\$147,711</u>
<b>Liabilities</b>	
Undistributed Monies	\$12,297
Due to Students	<u>135,414</u>
<i>Total Liabilities</i>	<u>\$147,711</u>

See accompanying notes to the basic financial statements

## **East Cleveland City School District**

*Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2012*

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

East Cleveland City School District (the School District) is a city school district as defined by Section 3311.02 of the Ohio Revised Code. Although the first public school in East Cleveland was established by the township in 1846, the will of John Shaw in 1835 provided for the establishment of a private academy in East Cleveland Township. In 1870, the Board of Education of East Cleveland Township assumed management of the academy and in 1883, the Board and the Shaw Trustees agreed on the Board's long-range operation of the school. The School District is one of the 614 school districts in the State of Ohio and one of 33 in Cuyahoga County, and provides education to 2,983 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.

#### ***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.

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 North Coast Council, 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.

## East Cleveland City School District

### *Notes to the Basic Financial Statements For the Fiscal Year Ended June 30, 2012*

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#### ***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.

#### ***Fund Accounting***

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

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

***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.

## East Cleveland City School District

### *Notes to the Basic Financial Statements For the Fiscal Year Ended June 30, 2012*

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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.

#### ***Basis of Accounting***

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

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

Nonexchange transactions, in which the School District receives value without directly giving equal value in return, include property taxes, grants, entitlements and donations. On an accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied. (See Note 8). Revenue from grants, entitlements and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the fiscal year when the

## East Cleveland City School District

### *Notes to the Basic Financial Statements For the Fiscal Year Ended June 30, 2012*

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resources are required to be used or the fiscal year when use is first permitted, matching requirements, in which the School District must provide local resources to be used for a specified purpose, and expenditure requirements, in which the resources are provided to the School District on a reimbursement basis. On a modified accrual basis, revenue from nonexchange transactions must also be available before it can be recognized.

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

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

Property taxes for which there is an enforceable legal claim as of June 30, 2012, but which were levied to finance fiscal year 2013 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.

#### ***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. Prior to June 30, the Board requested and received an amended certificate in which estimated revenue closely reflects the actual revenue for the fiscal year.

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.

## **East Cleveland City School District**

### *Notes to the Basic Financial Statements For the Fiscal Year Ended June 30, 2012*

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#### ***Cash and Cash Equivalents***

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

During fiscal year 2012, the School District's investments were limited to federal national mortgage association bonds, federal home loan mortgage corporation bonds, money market and STAR Ohio.

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

STAR Ohio is an investment pool managed by the State Treasurer's Office which allows governments within the State to pool their funds for investment purposes. STAR Ohio is not registered with the SEC as an investment company, but does operate in a manner consistent with Rule 2a7 of the Investment Company Act of 1940. Investments in STAR Ohio are valued at STAR Ohio's net asset value per share which is the price the investment could be sold for on June 30, 2012.

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 2012 amounted to \$206,769, which includes \$47,978 assigned from other School District funds.

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

#### ***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.

#### ***Restricted Assets***

Assets are reported as restricted when limitations on their use change the nature of normal understanding of the availability of the asset. Such constraints are either externally imposed by creditors, contributors, grantors, or the laws of other governments, or imposed by law through constitutional provisions. Restricted assets on the balance sheet represent monies set aside for unclaimed monies.

#### ***Capital Assets***

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

Capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the fiscal year. Donated capital assets are recorded at their fair market values as of the date received. The School District maintains a capitalization threshold of 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.

**East Cleveland City School District**

*Notes to the Basic Financial Statements*

*For the Fiscal Year Ended June 30, 2012*

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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
Land Improvements	10 - 40 years
Buildings and Improvements	10 - 40 years
Furniture and Equipment	10 - 20 years
Vehicles	12 years
Textbooks	7 years

***Bond Issuance Costs***

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

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

***Bond Premium***

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

***Gain/Loss on Refunding***

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

***Interfund Balances***

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

**East Cleveland City School District**  
*Notes to the Basic Financial Statements*  
*For the Fiscal Year Ended June 30, 2012*

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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 absence that will be paid from governmental funds are reported as a liability in the fund financial statements only to the extent that they are due for payment during the current fiscal year. Bonds are recognized as a liability on the fund financial statements when due.

***Internal Activity***

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

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 community involvement, student activities, education management information systems, 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.

## East Cleveland City School District

Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2012

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### ***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 the highest level 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.

***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 the School District Board of Education or a School District official delegated that authority by resolution or by a State statute.

***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.

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.

**East Cleveland City School District**  
*Notes to the Basic Financial Statements*  
*For the Fiscal Year Ended June 30, 2012*

**Note 3 – Change in Accounting Principles and Restatement of Prior Year’s Fund Balance and Net Assets**

***Change in Accounting Principles***

For fiscal year 2012, the School District has implemented Governmental Accounting Standard Board (GASB) Statement No. 64, “Derivative Instruments: Application of Hedge Accounting Termination Provisions – and amendment of GASB Statement No. 53 “Fund Balance Reporting and Governmental Fund Type Definitions.” GASB Statement No. 64 clarifies whether an effective hedging relationship continues after the replacement of a swap counterparty or a swap counterparty's credit support provider. This Statement sets forth criteria that establish when the effective hedging relationship continues and hedge accounting should continue to be applied. 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 and Net Assets***

During fiscal year 2012, it was determined that interfund receivable for general fund and interfund payable for the other governmental funds were overstated for \$712,453. This restatement had the following effect on fund balances of the major and nonmajor funds as they were previously reported:

	General	Other Governmental Funds	Total Governmental Funds
Fund Balance at June 30, 2011	\$33,404,526	\$4,745,076	\$38,149,602
Interfund Activity	(712,453)	712,453	0
Adjusted Fund Balance at June 30, 2011	\$32,692,073	\$5,457,529	\$38,149,602

During fiscal year 2012, it was determined that capital assets were understated by \$3,565,022 in previous years. This restatement increased net assets from \$120,883,446 to \$124,448,468 at June 30, 2011.

**Note 4 – Fund Deficits**

At June 30, 2012, the following funds had deficit fund balances:

	Amount
Nonmajor Funds:	
Race to the Top	\$340,965
Adult Basic Education	47,307
Preschool Handicapped	35,741
Public School Preschool	34,826
Drug Free Education	10,300
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.

**East Cleveland City School District**

*Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2012*

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**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 is presented on the budgetary basis to provide a meaningful comparison of actual results with the budget. The major differences between the budget basis and GAAP basis are as follows:

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

Net Change in Fund Balances	
	<u>General</u>
GAAP Basis	(\$4,459,484)
Net Adjustment for Revenue Accruals	(493,624)
Advances In	2,754,287
Beginning Unreported Cash	(20,113)
Ending Unreported Cash	5,262
Beginning Fair Value Adjustment	(92,612)
Ending Fair Value Adjustment	52,669
Net Adjustment for Expenditure Accruals	482,015
Advances Out	(1,670,024)
Adjustment for Encumbrances	<u>(2,498,347)</u>
Budget Basis	<u><u>(\$5,939,971)</u></u>

**East Cleveland City School District**  
*Notes to the Basic Financial Statements*  
*For the Fiscal Year Ended June 30, 2012*

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**Note 6 - Deposits and Investments**

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

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

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

Interim deposits are deposits of interim monies. Interim monies are those monies which are not needed for immediate use but which will be needed before the end of the current period of designation of depositories. 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.

**East Cleveland City School District**  
*Notes to the Basic Financial Statements*  
*For the Fiscal Year Ended June 30, 2012*

**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, \$6,439,129 of the School District's bank balance of \$6,689,129 was uninsured 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, 2012, the School District had the following investments:

Investment Type	Fair Value	Maturity	Standard and Poor's Rating	Percentage of Total Investments
Federal National Mortgage Association Bonds	\$8,529,375	Less than five years	AAA	25.94 %
Federal Home Loan Mortgage Corporation Bonds	10,054,700	Less than five years	AAA	30.58
Money Market	11,158,913	Daily	AAAm	33.94
STAR Ohio	3,134,909	52.5 Days	AAA	9.54
<b>Total Investments</b>	<u><u>\$32,877,897</u></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.

**Note 7 - Receivables**

Receivables at June 30, 2012, 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.

**East Cleveland City School District**  
*Notes to the Basic Financial Statements*  
*For the Fiscal Year Ended June 30, 2012*

A summary of principal items of intergovernmental receivables follows:

Governmental Activities	Amount
Race to the Top	\$162,870
Title VI - B	124,848
Title II-D Technology	20,563
Medicaid Reimbursement	102
<i>Total Intergovernmental Receivables</i>	<i>\$308,383</i>

**Note 8 - Property Taxes**

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

Property taxes include amounts levied against all real and public utility located in the School District. Real property tax revenue received in calendar year 2012 represents collections of calendar year 2011 taxes. Real property taxes received in calendar year 2012 were levied after April 1, 2011, on the assessed value listed as of January 1, 2011, 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 2012 represents collections of calendar year 2011 taxes. Public utility real and tangible personal property taxes received in calendar year 2012 became a lien December 31, 2010, were levied after April 1, 2011 and are collected in calendar year 2012 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.

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, 2012, are available to finance fiscal year 2012 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 taxes and public utility property taxes which are measurable as of June 30, 2012 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, 2012, was \$1,142,079 in the general fund, \$132,108 in the general obligation bond retirement debt service fund and \$14,611 in the classroom facilities maintenance capital projects fund. The amount available as an advance 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 and in the classroom facilities maintenance capital projects fund. The difference was in the timing and collection by the County Fiscal Officer.

**East Cleveland City School District**

*Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2012*

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 2012 taxes were collected are:

	2011 Second Half Collections		2012 First Half Collections	
	Amount	Percent	Amount	Percent
Real Estate				
Residential/Agricultural	\$174,417,750	72.91 %	\$170,741,430	73.55 %
Other Real Estate	55,415,450	23.16	51,754,510	22.30
Tangible Personal Property				
Public Utility	9,399,560	3.93	9,632,540	4.15
<b>Total</b>	<b>\$239,232,760</b>	<b>100.00 %</b>	<b>\$232,128,480</b>	<b>100.00 %</b>
Tax rate per \$1,000 of assessed valuation		\$93.00		\$93.00

**Note 9 – 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	Other Governmental Funds	Total
<b><i>Nonspendable:</i></b>			
Unclaimed Monies	\$359,021	\$0	\$359,021
Inventory	0	12,632	12,632
<b><i>Total Nonspendable</i></b>	<b>359,021</b>	<b>12,632</b>	<b>371,653</b>
<b><i>Restricted for:</i></b>			
Food Service Operations	0	1,114,462	1,114,462
Vocational Education	0	38,824	38,824
Community Involvement	0	344,023	344,023
Alternative Schools	0	34,619	34,619
Technology Improvements	0	42,247	42,247
Athletics and Music	0	42,896	42,896
Educational Services	0	187,374	187,374
Remedial Reading	0	22,419	22,419
Special Education	0	282,089	282,089

**East Cleveland City School District**

*Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2012*

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<u>Fund Balances</u>	<u>General</u>	<u>Other Governmental Funds</u>	<u>Total</u>
<b><i>Restricted for:</i></b>			
Student Services	\$0	\$1,663,122	\$1,663,122
Classroom Size Reduction	0	202,667	202,667
Preschool	0	6,520	6,520
Debt Service Payments	0	1,834,094	1,834,094
Capital Improvements	0	1,335,015	1,335,015
<i>Total Restricted</i>	<u>0</u>	<u>7,150,371</u>	<u>7,150,371</u>
<b><i>Assigned to</i></b>			
Instructional Services	<u>6,095,688</u>	<u>0</u>	<u>6,095,688</u>
<b><i>Unassigned (Deficit)</i></b>	<u>21,777,880</u>	<u>(374,573)</u>	<u>21,403,307</u>
<b><i>Total Fund Balances</i></b>	<u><u>\$28,232,589</u></u>	<u><u>\$6,788,430</u></u>	<u><u>\$35,021,019</u></u>

**Note 10 - Contingencies**

***Grants***

The School District received financial assistance from federal and State agencies in the form of grants. The expenditure of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and is 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. This also encompasses the Auditor of State's ongoing review of student attendance data. 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, 2012.

***Litigation***

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

**East Cleveland City School District**  
*Notes to the Basic Financial Statements*  
For the Fiscal Year Ended June 30, 2012

**Note 11 - Capital Assets**

Capital asset activity for the fiscal year ended June 30, 2012, was as follows:

	Balance 6/30/11	Additions	Deletions	Balance 6/30/12
<b>Governmental Activities</b>				
<i>Capital Assets, not being depreciated:</i>				
Land	\$2,389,900	\$0	\$0	\$2,389,900
<i>Capital Assets, being depreciated:</i>				
Land Improvements	2,433,817	0	0	2,433,817
Buildings and Improvements	97,394,802	27,056	0	97,421,858
Furniture and Equipment	9,211,665	190,173	0	9,401,838
Vehicles	516,048	25,000	0	541,048
Textbooks	1,853,856	0	0	1,853,856
<i>Total Capital Assets, being Depreciated</i>	<u>111,410,188</u>	<u>242,229</u>	<u>0</u>	<u>111,652,417</u>
Less Accumulated Depreciation:				
Land Improvements	(710,428)	(130,390)	0	(840,818)
Buildings and Improvements	(19,564,042)	(2,346,241)	0	(21,910,283)
Furniture and Equipment	(4,695,634)	(1,245,423)	0	(5,941,057)
Vehicles	(388,471)	(14,449)	0	(402,920)
Textbooks	(1,333,476)	(95,713)	0	(1,429,189)
<i>Total Accumulated Depreciation</i>	<u>(26,692,051)</u>	<u>(3,832,216)</u>	<u>0</u>	<u>(30,524,267)</u>
<i>Total Capital Assets, being Depreciated, Net</i>	<u>84,718,137</u>	<u>(3,589,987)</u>	<u>0</u>	<u>81,128,150</u>
<i>Governmental Activities Capital Assets, Net</i>	<u>\$87,108,037</u>	<u>(\$3,589,987)</u>	<u>\$0</u>	<u>\$83,518,050</u>

Depreciation expense was charged to governmental functions as follow:

Instruction:	
Regular	\$3,583,943
Special	20,570
Support Services:	
Instructional Staff	22,662
Administration	20,884
Business	315
Operation and Maintenance of Plant	33,188
Pupil Transportation	8,540
Central	42,013
Operation of Non-Instructional Services:	
Food Service Operations	79,803
Extracurricular Activities	20,298
<i>Total Depreciation Expense</i>	<u>\$3,832,216</u>

**East Cleveland City School District**  
*Notes to the Basic Financial Statements*  
*For the Fiscal Year Ended June 30, 2012*

**Note 12 - Interfund Transactions**

***Transfers***

During fiscal year 2012, the School District transferred \$181,960 from the general fund to other governmental funds to support programs and projects accounted for in other funds.

***Balances***

Interfund balances at June 30, 2012 consisted of the following:

	Interfund Receivable		
Interfund Payable	General Fund	Other Governmental Funds	Total
Other Governmental Funds	\$1,420,854	\$288,998	\$1,709,852

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 2012, the School District contracted with Mid-American Fire and Casualty Insurance Company for property insurance of \$135,557,552, fleet insurance of \$1,000,000 and liability coverage of \$5,000,000 with a \$5,000 deductible.

Professional liability is protected by the Mid-American Fire and Casualty Insurance Company. General liability is protected with Mid-American Fire and Casualty 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 Mid-American Fire and Casualty 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 2012, 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.

**East Cleveland City School District**

*Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2012*

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***Employee Benefits***

The School District has contracted with Anthem to provide employee medical, surgical, prescription drug and dental benefits. The School District pays \$1,800 for family coverage, \$1,200 for single plus one coverage and \$600 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.

**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](http://www.ohsers.org) under Employers/Audit Resources.

Funding Policy – Plan members are required to contribute 10 percent of their annual covered salary and the School District is required to contribute 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

## **East Cleveland City School District**

### *Notes to the Basic Financial Statements For the Fiscal Year Ended June 30, 2012*

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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, 2012, the allocation to pension and death benefits was 12.70 percent. The remaining 1.30 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, 2012, 2011 and 2010 were \$840,882, \$805,180 and \$803,245, respectively. For fiscal year 2012, 96.67 percent has been contributed, with the balance being reported as an intergovernmental payable. The full amount has been contributed for fiscal years 2011 and 2010.

#### ***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](http://www.strsoh.org).

New members have a choice of three retirement plans; a Defined Benefit (DB) Plan, a Defined Contribution (DC) Plan and a Combined Plan. The DB plan offers an annual retirement allowance based on final average salary 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.

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, 2012, 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 \$2,821,579 and \$68,307 for the fiscal year ended June 30, 2012, \$2,820,926 and \$74,775 for the fiscal year ended June 30, 2011 and \$2,781,314 and \$68,462 for the fiscal year ended June 30, 2010. For fiscal year 2012, 83.12 percent has been contributed for the DB Plan and the Combined Plan, with the balance being reported as an intergovernmental payable. The full amount has been contributed for fiscal years 2011 and 2010.

## East Cleveland City School District

### *Notes to the Basic Financial Statements For the Fiscal Year Ended June 30, 2012*

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Contributions made to STRS Ohio for the DC Plan for fiscal year 2012 were \$49,471 made by the School District and \$35,336 made by the plan members. In addition, member contributions of \$48,791 were made for fiscal year 2012 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, Medicare Advantage, 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](http://www.ohsers.org) under Employers/Audit Resources.

Funding Policy - State statute permits SERS to fund the health care benefits through employer contributions. Each year, after the allocation for statutorily required benefits, the Retirement Board allocates the remainder of the employer contribution of 14 percent of covered payroll to the Health Care Fund. The Health Care Fund was established and is administered in accordance with Internal Revenue Code Section 105(e). For fiscal year 2012, 0.55 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 2012, this amount was \$35,800. During fiscal year 2012, the School District paid \$99,318 in surcharge.

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, 2012, 2011 and 2010 were \$135,734, \$199,761, and \$123,190, respectively. For fiscal year 2012, 96.67 percent has been contributed, with the balance being reported as an intergovernmental payable. The full amount has been contributed for fiscal years 2011 and 2010.

The Retirement Board, acting with advice of the actuary, allocates a portion of the employer contribution to the Medicare B Fund. For fiscal year 2012, this actuarially required allocation was 0.75 percent of covered payroll. The School District's contributions for Medicare Part B for the fiscal years ended June 30, 2012, 2011 and 2010, were \$49,658, \$51,815 and \$47,767, respectively. For fiscal year 2012, 96.67 percent has been contributed, with the balance being reported as an intergovernmental payable. The full amount has been contributed for fiscal years 2011 and 2010.

##### ***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](http://www.strsoh.org) or by calling (888) 227-7877.

**East Cleveland City School District**

*Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2012*

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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 2012, 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, 2012, 2011 and 2010 were \$217,045, \$221,122 and \$193,969, respectively. For fiscal year 2012, 83.12 percent has been contributed, with the balance being reported as an intergovernmental payable. The full amount has been contributed for fiscal years 2011 and 2010.

**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.

**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, Ms. Charlene Hollowell, 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:

<u>Debt Issue</u>	<u>Original Issue Date</u>	<u>Original Issue Amount</u>	<u>Interest Rate</u>	<u>Date of Maturity</u>
<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

## East Cleveland City School District

*Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2012*

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

	Principal Outstanding 6/30/11	Additions	(Reductions)	Principal Outstanding 6/30/12	Amount Due in One Year
<b>Governmental Activities:</b>					
General Obligations Bonds:					
School Improvement Bonds - 1999					
Capital Appreciation Bonds	\$209,148	\$0	(\$209,148)	\$0	\$0
Accretion on Capital Appreciation Bonds	287,930	17,922	(305,852)	0	0
School Improvement Refunding - 2007					
Serial Bonds	5,645,000	0	0	5,645,000	525,000
Unamortized Premium	298,547	0	(31,704)	266,843	0
Unamortized Accounting Loss	(169,002)	0	17,947	(151,055)	0
<i>Total General Obligation Bonds</i>	<u>6,271,623</u>	<u>17,922</u>	<u>(528,757)</u>	<u>5,760,788</u>	<u>525,000</u>
Compensated Absences	<u>5,570,973</u>	<u>171,663</u>	<u>(697,957)</u>	<u>5,044,679</u>	<u>1,304,132</u>
Total Governmental Activities	<u><u>\$11,842,596</u></u>	<u><u>\$189,585</u></u>	<u><u>(\$1,226,714)</u></u>	<u><u>\$10,805,467</u></u>	<u><u>\$1,829,132</u></u>

The school improvement capital appreciation bonds were issued in 1999 and was paid from property taxes. These bonds were paid from the bond retirement fund. This year the addition on the capital appreciation bonds was \$17,922 which represents the annual accretion of discounted interest. The capital appreciation bonds were paid in full during fiscal year 2012.

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. These bonds were paid from the bond retirement fund.

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. School improvement refunding bonds will be paid from the bond retirement fund.

The overall debt margin of the School District as of June 30, 2012, was \$17,080,657 with an unvoted debt margin of \$232,128. Principal and interest requirements to retire general obligation bonds outstanding at June 30, 2012, are as follows:

	General Obligation Bonds	
	Principal	Interest
2013	\$525,000	\$260,250
2014	545,000	238,850
2015	570,000	216,550
2016	595,000	192,506
2017	615,000	166,794
2018-2021	<u>2,795,000</u>	<u>317,487</u>
Total	<u><u>\$5,645,000</u></u>	<u><u>\$1,392,437</u></u>

**East Cleveland City School District**  
*Notes to the Basic Financial Statements*  
*For the Fiscal Year Ended June 30, 2012*

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**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 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 capital acquisition. Disclosure of this information is required by State statute.

	Capital Improvement
Set-aside Balances as of June 30, 2011	(\$7,480,282)
Current Year Set-aside Requirement	558,155
Levy Proceeds Offsets	(78,050)
Qualifying Disbursements	(709,301)
Totals	(\$7,709,478)
Set-aside Balance Carried Forward to Future Fiscal Years	(\$7,709,478)
Set-aside Balances as of June 30, 2012	\$0

**Note 21 - Jointly Governed Organizations**

***North Coast Council***

The North Coast Council (NCC) is a jointly governed computer service bureau owned and operated by thirteen public school districts. The primary function of NCC is to provide to its members the support and leadership which enables organizations to achieve their objectives through innovative and cost effective shared technology solutions. Major areas of service provided by NCC include accounting, payroll, inventory, career guidance services, handicapped student tracking, pupil scheduling, attendance reporting and grade reporting. NCC is wholly owned by its member districts and is governed by a Board of Directors (member Superintendents). NCC's current membership includes the Educational Service Center of Cuyahoga County and thirteen school districts in Cuyahoga County. 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 NCC. Each school district supports NCC based upon a per pupil charge dependent upon the software packages used. In fiscal year 2012, the School District paid \$91,708 to NCC. Financial information can be obtained by contacting the Treasurer of the fiscal agent at 5700 West Canal Road, Valley View, Ohio 44125.

***Ohio Schools Council***

The Ohio Schools Council (Council) is a jointly governed organization among 157 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).

**East Cleveland City School District**

*Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2012*

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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 2012, the School District paid \$815 to the Council. Financial information can be obtained by contacting William Zelei, the Executive Director of the Ohio Schools' Council at 6133 Rockside Road, Suite 10, Independence, Ohio 44131.

The School District participates in the natural gas purchase program. This program allows the School District to purchase natural gas at reduced rates. Energy USA served as the natural gas supplier and program manager from October 1, 2008 to September 30, 2010. Compass Energy has been selected as the new supplier and program manager for the period from October 1, 2010 through March 31, 2013. There are currently 139 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 \$4,000 per month. For fiscal year 2012, the School District paid rental costs of \$48,000. The School District must provide the lessor written notice at least 90 days prior to termination of the lease.

**Note 23 – Significant Commitments**

***Encumbrances***

Encumbrances are commitments related to unperformed contracts for goods or services. Encumbrance accounting is utilized to the extent necessary to assure effective budgetary control and accountability and to facilitate effective cash planning and control. At fiscal year end the amount of encumbrances expected to be honored upon performance by the vendor in the next fiscal year were as follows:

General fund	\$2,498,347
Other governmental funds	1,056,485
Total	<u><u>\$3,554,832</u></u>

**EAST CLEVELAND CITY SCHOOL DISTRICT  
CUYAHOGA COUNTY  
FEDERAL AWARDS RECEIPTS AND EXPENDITURES SCHEDULE  
FOR THE YEAR ENDED JUNE 30, 2012**

<b>FEDERAL GRANTOR</b> <i>Pass Through Grantor</i> Program Title	Federal CFDA Number	Receipts	Disbursements
<b>UNITED STATES DEPARTMENT OF AGRICULTURE</b>			
<i>Passed Through Ohio Department of Education:</i>			
Child Nutrition Cluster:			
Non-Cash Assistance (Food Distribution):			
National School Lunch Program	10.555	\$101,106	\$101,106
Cash Assistance:			
National School Lunch Program	10.555	911,769	911,769
School Breakfast Program	10.553	320,032	320,032
Summer Food Service Program for Children	10.559	40,929	40,929
Cash Assistance Subtotal		<u>1,272,730</u>	<u>1,272,730</u>
Total Child Nutrition Cluster		<u>1,373,836</u>	<u>1,373,836</u>
Fresh Fruit and Vegetable Program	10.582	76,260	76,260
Total U.S. Department of Agriculture		<u>1,450,096</u>	<u>1,450,096</u>
<b>U.S. DEPARTMENT OF DEFENSE</b>			
<i>Direct Assistance:</i>			
Junior ROTC	84.215	51,085	51,085
Total U.S. Department of Defense		<u>51,085</u>	<u>51,085</u>
<b>U. S. DEPARTMENT OF EDUCATION</b>			
<i>Passed Through Ohio Department of Education:</i>			
Title I, Part A Cluster:			
Title I Grants to Local Educational Agencies	84.010	5,419,199	4,329,262
Title I Grants to Local Educational Agencies, Recovery Act	84.389	272,188	306,843
Total Title I, Part A Cluster		<u>5,691,387</u>	<u>4,636,105</u>
Special Education Cluster:			
Special Education - Grants to States (IDEA, Part B)	84.027	1,050,315	944,193
Special Education - Grants to States (Idea, Part B), Recovery Act	84.391	0	23,144
Special Education - Preschool Grants (IDEA Preschool)	84.173	42,103	28,848
Total Special Education Cluster		<u>1,092,418</u>	<u>996,185</u>
Career and Technical Education - Basic Grants to States	84.048	167,019	162,134
Improving Teacher Quality State Grants	84.367	627,175	565,305
Education Technology State Grants	84.318	10,818	8,379
Reading First State Grants	84.357	17,957	140,953
Education Jobs Fund	84.410	1,021,789	825,128
School Improvement Grants Recovery Act	84.388	1,459,400	970,471
ARRA - State Fiscal Stabilization Fund (SFSF) - Race-to-the-Top Incentive Grants, Recovery Act	84.395	531,125	1,036,260
Total Pass Through Ohio Department of Education		<u>10,619,088</u>	<u>9,340,920</u>
Total U.S. Department of Education		<u>10,619,088</u>	<u>9,340,920</u>
Total Federal Assistance		<u>\$12,120,269</u>	<u>\$10,842,101</u>

See the accompanying notes to this schedule.

**EAST CLEVELAND CITY SCHOOL DISTRICT  
CUYAHOGA COUNTY  
NOTES TO THE FEDERAL AWARDS RECEIPTS AND EXPENDITURES SCHEDULE  
FISCAL YEAR ENDED JUNE 30, 2012**

**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  
1843 Stanwood Road  
East Cleveland, Ohio 44112-2707

To the Board of Education:

We have audited the financial statements of the governmental activities, the 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, 2012, which collectively comprise the District's basic financial statements and have issued our report thereon dated May 29, 2013. 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 May 29, 2013.

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 style with a large, looping "D" and "Y".

**Dave Yost**  
Auditor of State

May 29, 2013



# 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  
1843 Stanwood Road  
East Cleveland, Ohio 44112-2707

To the Board of Education:

### Compliance

We have audited the compliance of East Cleveland City School District (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 East Cleveland City School District's major federal programs for the year ended June 30, 2012. The *summary of auditor's results* section of the accompanying schedule of findings and questioned costs identifies the District's major federal programs. The District's management is responsible for complying with the requirements of laws, regulations, contracts, and grants applicable to each major federal program. Our responsibility is to 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 2012-01 in the accompanying schedule of findings and questioned costs, the District did not comply with requirements regarding level of effort applicable to its Title I Part A Cluster major federal program. Compliance with this requirement is necessary, in our opinion, for the District to comply with requirements applicable to this program.

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, 2012.

### 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 and questioned costs as item 2012-01 to be a material weakness.

We also noted a matter involving federal compliance or internal control over federal compliance not requiring inclusion in this report, that we reported to the District's management in a separate letter dated May 29, 2013.

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

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



**Dave Yost**  
Auditor of State

May 29, 2013

**EAST CLEVELAND CITY SCHOOL DISTRICT  
CUYAHOGA COUNTY**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
OMB CIRCULAR A -133 § .505  
FOR THE FISCAL YEAR ENDED JUNE 30, 2012**

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

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

**EAST CLEVELAND CITY SCHOOL DISTRICT  
CUYAHOGA COUNTY**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
OMB CIRCULAR A -133 § .505  
FOR THE FISCAL YEAR ENDED JUNE 30, 2012  
(CONTINUED)**

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

(Continued)

<i>(d)(1)(vii)</i>	<b>Major Programs (list):</b>	<p>Title I Part A Cluster: CFDA #84.010 – Title I Grants to Local Educational Agencies CFDA #84.389 – Title I Grants to Local Educational Agencies, Recovery Act</p> <p>Special Education Cluster (IDEA): CFDA #84.027 – Special Education – Grants to States (IDEA, Part B) CFDA #84.173 – Special Education – Preschool Grants (IDEA Preschool) CFDA #84.391 – Special Education – Grants to States )Idea, Part B), Recovery Act</p> <p>Child Nutrition Cluster: CFDA #10.553 – School Breakfast Program CFDA #10.555 – National School Lunch Program CFDA #10.559 – Summer Food Service Program for Children</p> <p>CFDA #84.395 - State Fiscal Stabilization Fund (SFSF) – Race to the Top Incentive Grants, Recovery Act</p> <p>CFDA #84.388 – School Improvement Grants Recovery Act</p>
<i>(d)(1)(viii)</i>	<b>Dollar Threshold: Type A/B Programs</b>	Type A: \$325,263 Type B: \$100,000
<i>(d)(1)(ix)</i>	<b>Low Risk Auditee?</b>	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 AND QUESTIONED COSTS  
OMB CIRCULAR A -133 § .505  
FOR THE FISCAL YEAR ENDED JUNE 30, 2012  
(CONTINUED)**

<b>3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS</b>
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**Material Weakness, Material Noncompliance, Questioned Costs, Level of Effort Finding**

<b>Finding Number</b>	2012-01
<b>CFDA Title and Number</b>	Title I Part A Cluster: CFDA #84.010 – Title I Grants to Local Educational Agencies CFDA #84.389 – Title I Grants to Local Educational Agencies, Recovery Act
<b>Year</b>	2012
<b>Federal Agency</b>	U. S. Department of Education
<b>Pass-Through Agency</b>	Ohio Department of Education

OMB Circular A-87, Appendix B, paragraph 8.h.(4), (5), and (6), states where an employee works on multiple activities or cost objectives, a distribution of their salaries or wages will be supported by personnel activity reports or equivalent documentation which meets the standards in subsection (5) unless a statistical sampling system or other substitute system has been approved by the cognizant Federal agency. Such documentary support will be required where employees work on:

- (a) More than one Federal award,
- (b) A Federal award and a non-Federal award,
- (c) An indirect cost activity and a direct cost activity,
- (d) Two or more indirect activities which are allocated using different allocation bases, or
- (e) An unallowable activity and a direct or indirect cost activity.

Subsection (5) requires personnel activity reports or equivalent documentation must meet the following standards:

- (a) They must reflect an after-the-fact distribution of the actual activity of each employee,
- (b) They must account for the total activity for which each employee is compensated,
- (c) They must be prepared at least monthly and must coincide with one or more pay periods, and
- (d) They must be signed by the employee.

A school that consolidates Federal funds with State and local funds in a consolidated schoolwide pool is not required to maintain separate records by program (Section 1114(a)(3)(C) of ESEA (20 USC 6314(a)(3)(C)); 34 CFR section 200.29(d)). If a schoolwide program school does not consolidate Federal funds in a consolidated schoolwide pool, the school must keep separate records by program. (Guidance is contained in the publication entitled *Title I Fiscal Issues: Maintenance of Effort; Comparability; Supplement, not Supplant; Carryover; Consolidating Funds in Schoolwide Programs; and Grantback Requirements* (February 2008). This guidance is available on the Internet at <http://www.ed.gov/programs/titleiparta/fiscalguid.doc>).

**EAST CLEVELAND CITY SCHOOL DISTRICT  
CUYAHOGA COUNTY**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
OMB CIRCULAR A -133 § .505  
FOR THE FISCAL YEAR ENDED JUNE 30, 2012  
(CONTINUED)**

<b>3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS (CONTINUED)</b>
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**FINDING NUMBER 2012-01 (Continued)**

If a school operating a schoolwide program does not consolidate Federal funds with State and local funds in a consolidated schoolwide pool, an employee who works, in whole or in part, on a Federal program or cost objective must document time and effort as follows:

(a) An employee who works solely on a single cost objective (i.e., a single Federal program whose funds have not been consolidated or Federal programs whose funds have been consolidated but not with State and local funds) must furnish a semi-annual certification that he/she has been engaged solely in activities that support the single cost objective. The certifications must be signed by the employee or a supervisory official having first-hand knowledge of the work performed by the employee in accordance with OMB Circular A-87, Attachment B, paragraph 8.h.(3).

The District operates a school-wide program for the Title 1 federal program.

The District prepares a list of employees requiring semi-annual certification which is signed and approved by the respective supervisor. During a review of the two semi-annual certification lists prepared, we noted the following:

- The certifications were dated and approved by the supervisor before the employees worked on the program instead of after the fact;
- Two employees assigned to the program were omitted from the certification list;
- Six employees were listed on both certifications that should not have been. These employees were assigned to the program the prior year but not for fiscal year 2012;
- In June 2012, the payroll chargeback errors were identified by the District and an adjustment for \$479,118 was made reclassifying 13 employees time from the federal program to the general fund; and
- The Human Resource Department is responsible for determining what fund/account each employee is to charge at the beginning of each fiscal year and entering the information into the accounting system. However, the Department did not properly update the system to reflect the employees assigned to the federal programs for fiscal year 2012.

Based on the above facts, time and effort records were not properly maintained. As a result, we are unable to verify the time charged to the federal program. This projects to a questioned cost in excess of \$10,000.

We recommend the semi-annual certifications of time and effort be properly prepared and approved by the respective employee's supervisor after the fact. The District should also monitor the employees charging the federal programs throughout the year to ensure the proper employees are charging the program. The Human Resource Department should also develop monitoring controls to ensure the employee's charging the federal programs have been properly entered into the system at the beginning of each fiscal year.

**EAST CLEVELAND CITY SCHOOL DISTRICT  
CUYAHOGA COUNTY**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
OMB CIRCULAR A -133 § .505  
FOR THE FISCAL YEAR ENDED JUNE 30, 2012  
(CONTINUED)**

<b>3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS (CONTINUED)</b>
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**FINDING NUMBER 2012-01 (Continued)**

**District's Response**

1. The District will prepare the required semi-annual certifications, signed and dated by the administrator of the program upon completion of the assigned work.
2. The certification form will be reviewed by the program administrator to ensure all staff listed is appropriately charged against the grant.
3. The Treasurer's Office will run an ACCRPT (account report) for all Title program administrator(s) in September, January and May. After approving or correcting assignments, the grant administrator will forward their assignments to the Treasurer. The Treasurer's Office will prepare the correcting entry.
4. The Human Resource Department will assign appropriate coding as instructed by the Title program administrator(s). The Human Resource Department will set up personnel screens accordingly.

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**EAST CLEVELAND CITY SCHOOL DISTRICT  
CUYAHOGA COUNTY**

**SCHEDULE OF PRIOR AUDIT FINDINGS  
OMB CIRCULAR A -133 § .315 (b)  
FOR THE FISCAL YEAR ENDED JUNE 30, 2012**

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; <b><i>Explain</i></b>
2011-01	Payments of more than \$25,000 were made to vendors and there was no evidence the District verified the vendors were not suspended or disbarred.	Yes	

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# Dave Yost • Auditor of State

**EAST CLEVELAND CITY SCHOOL DISTRICT**

**CUYAHOGA COUNTY**

**CLERK'S CERTIFICATION**

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

*Susan Babbitt*

**CLERK OF THE BUREAU**

**CERTIFIED  
JUNE 13, 2013**