



**Auditor of State  
Betty Montgomery**

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

**Financial Forecast  
For the Fiscal Year Ending June 30, 2004**

**Local Government Services Section**

East Cleveland City School District  
Cuyahoga County

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**Auditor of State  
Betty Montgomery**

Financial Planning and Supervision Commission  
Ohio Department of Education  
25 South Front Street  
Columbus, Ohio 43215

and

Board of Education  
East Cleveland City School District  
15305 Terrace Road  
East Cleveland, Ohio 44112

**CERTIFICATION**

Certification is hereby made that, based upon the requirement set forth in Section 3316.08, Revised Code, the Local Government Services Section of the Auditor of State's Office has examined the financial forecast of the general fund of the East Cleveland City School District, Cuyahoga County, Ohio. The forecast is based on the assumption that the School District will continue to operate its instructional program in accordance with its adopted school calendar and pay all obligations. Additional significant assumptions are set forth in the forecast. Some assumptions inevitably will not materialize, and unanticipated events and circumstances may occur; therefore, the actual results of operations during the forecast period will vary from the forecast, and the variations may be material.

The forecast reflects an unencumbered, unreserved fund balance of \$1,508,000 as of June 30, 2004.

The forecasted revenues include all property taxes scheduled for settlement during the forecast period. The forecast excludes the receipt of any advances against fiscal year 2005 scheduled property tax settlements. The potential advances have been excluded due to the School District's inability to appropriate this revenue until received and the uncertainty of the timing of any advances. Currently, it is the Board's intent not to appropriate any such advances for fiscal year 2004.

Peter R. Sorem  
Chief of Local Government Services

April 28, 2004

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**Auditor of State  
Betty Montgomery**

Board of Education  
East Cleveland City School District  
15305 Terrace Road  
East Cleveland, Ohio 44112

**Independent Accountant's Report**

We have examined the accompanying forecasted statement of revenues, expenditures and changes in fund balance of the general fund of the East Cleveland City School District for the fiscal year ending June 30, 2004. The East Cleveland City School District's management is responsible for the forecast. Our responsibility is to express an opinion on the forecast based on our examination.

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

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

The accompanying statement of revenues, expenditures and changes in fund balance of the general fund of East Cleveland City School District for the fiscal years ended June 30, 2002 and 2003 were compiled by us in accordance with the Statements on Standards for Accounting and Review Services issued by the American Institute of Certified Public Accountants. A compilation is limited to presenting in the form of financial statements information that is the representation of management. We have not audited or reviewed this financial information, and, accordingly, do not express an opinion or any other form of assurance on them.

*Betty Montgomery*

Betty Montgomery  
Auditor of State

April 16, 2004

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EAST CLEVELAND CITY SCHOOL DISTRICT  
 CUYAHOGA COUNTY  
 STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE  
 FOR THE FISCAL YEARS ENDED JUNE 30, 2002 AND 2003 ACTUAL;  
 FOR THE FISCAL YEAR ENDING JUNE 30, 2004 FORECASTED  
 GENERAL FUND

	Fiscal Year 2002 Actual	Fiscal Year 2003 Actual	Fiscal Year 2004 Forecasted
<b>Revenues</b>			
General Property Tax (Real Estate)	\$9,023,000	\$9,071,000	\$8,813,000
Tangible Personal Property Tax	1,773,000	1,661,000	1,488,000
Unrestricted Grants-in-Aid	27,477,000	27,186,000	30,123,000
Restricted Grants-in-Aid	7,001,000	7,726,000	5,710,000
Property Tax Allocation	1,278,000	1,252,000	1,256,000
All Other Revenues	1,198,000	1,518,000	1,942,000
<i>Total Revenues</i>	<u>47,750,000</u>	<u>48,414,000</u>	<u>49,332,000</u>
<b>Other Financing Sources</b>			
Sale of Fixed Assets	0	0	3,000
Advances In	1,640,000	436,000	947,000
Solvency Assistance Advance	0	7,698,000	0
<i>Total Other Financing Sources</i>	<u>1,640,000</u>	<u>8,134,000</u>	<u>950,000</u>
<i>Total Revenues and Other Financing Sources</i>	<u>49,390,000</u>	<u>56,548,000</u>	<u>50,282,000</u>
<b>Expenditures</b>			
Personal Services	31,965,000	32,047,000	28,564,000
Employees' Retirement/Insurance Benefits	8,363,000	8,187,000	8,316,000
Purchased Services	7,017,000	7,943,000	8,783,000
Supplies and Materials	1,601,000	1,020,000	1,055,000
Capital Outlay	313,000	450,000	86,000
Debt Service			
Principal Retirement - Solvency Assistance Advance	0	0	3,849,000
Other Objects	788,000	724,000	581,000
<i>Total Expenditures</i>	<u>50,047,000</u>	<u>50,371,000</u>	<u>51,234,000</u>
<b>Other Financing Uses</b>			
Operating Transfers Out	261,000	250,000	818,000
Advances Out	436,000	1,946,000	193,000
All Other Financing Uses	0	2,000	0
<i>Total Other Financing Uses</i>	<u>697,000</u>	<u>2,198,000</u>	<u>1,011,000</u>
<i>Total Expenditures and Other Financing Uses</i>	<u>50,744,000</u>	<u>52,569,000</u>	<u>52,245,000</u>
<i>Excess of Revenues and Other Financing Sources Over (Under) Expenditures and Other Financing Uses</i>	(1,354,000)	3,979,000	(1,963,000)
Cash Balance July 1	1,984,000	635,000	4,614,000
Auditor's Adjustment to Beginning Cash	5,000	0	0
Cash Balance June 30	635,000	4,614,000	2,651,000
<b>Encumbrances and Reserves:</b>			
Actual/Estimated Encumbrances June 30	1,460,000	793,000	800,000
Reserve for Textbooks and Instructional Materials	375,000	145,000	343,000
Reserve for Disadvantaged Pupil Impact Aid	130,000	1,810,000	0
<i>Total Encumbrances and Reservations of Fund Balance</i>	<u>1,965,000</u>	<u>2,748,000</u>	<u>1,143,000</u>
<i>Unencumbered/Unreserved Fund Balance (Deficit) June 30</i>	<u>(\$1,330,000)</u>	<u>\$1,866,000</u>	<u>\$1,508,000</u>

See accompanying summary of significant forecast assumptions and accounting policies

East Cleveland City School District  
Cuyahoga County  
Summary of Significant Assumptions and Accounting Policies  
For the Fiscal Year Ending June 30, 2004

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**Note 1 - The School District**

The East Cleveland City School District (School District) is located in Cuyahoga County and encompasses all of the city of East Cleveland. The School District is organized under Article VI, Sections 2 and 3, of the Constitution of the State of Ohio. The legislative power of the School District is vested in the Board of Education, consisting of five members elected at large for staggered four year terms. The School District operates sixteen public schools including one high school, three junior high schools and twelve elementary schools. The School District is staffed by 232 non-certified and 366 certificated personnel to provide services to 5,080 students and other community members.

**Note 2 - Nature of the Forecast**

This financial forecast presents, to the best of the East Cleveland City School District Board of Education's knowledge and belief, the expected revenues, expenditures and operating balance of the general fund. Accordingly, the forecast reflects the Board of Education's judgment of the expected conditions and its expected course of action as of April 16, 2004, the date of this forecast. The assumptions disclosed herein are those that management believes are significant to the forecast. Differences between the forecasted and actual results will usually arise because events and circumstances frequently do not occur as expected, and those differences may be material.

**Note 3 - Nature of the Presentation**

The forecast presents the revenues, expenditures, and changes in fund balance of the general fund. Under State law, certain general fund resources received from the State must be spent on specific programs. These resources and the related expenditures have been segregated in the accounting records of the School District to demonstrate compliance. For presentation in the forecast, the general fund has been adjusted to include the financial activity of the disadvantaged pupil impact aid fund.

**Note 4 - Summary of Significant Accounting Policies**

**A. - Basis of Accounting**

This financial forecast has been prepared on a basis of cash receipts, disbursements, and encumbrances, which is consistent with the budget basis (non-GAAP) of accounting used to prepare the historical financial statements. Under this basis of accounting, certain revenue and related assets are recognized when received rather than when earned and certain expenditures are recognized when paid rather than when the obligation is incurred. However, by virtue of Ohio law, the School District is required to maintain the encumbrance method of accounting. This method requires purchase orders, contracts, and other commitments for the expenditure of monies to be recorded as the equivalent of an expenditure in order to reserve that portion of the applicable appropriation and to determine and maintain legal compliance.

East Cleveland City School District  
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**B. - Fund Accounting**

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

**Governmental Funds**

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

Special Revenue Funds - Special revenue funds are used to account for the proceeds of specific revenue sources (other than those for major capital projects) that are legally restricted to disbursements for specified purposes.

Debt Service Fund - Debt service funds are used to account for the accumulation of resources for, and the payment of, general long-term and short-term debt principal and interest.

Capital Projects Funds - Capital projects funds are used to account for financial resources used for the acquisition or construction of major capital facilities (other than those financed by proprietary funds).

**Proprietary Funds**

Enterprise Funds – Enterprise funds may be used to account for any activity for which a fee is charged to external users for goods or services.

**Fiduciary Funds**

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.

**C. - Budgetary Process**

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

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

East Cleveland City School District  
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For the Fiscal Year Ending June 30, 2004

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

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

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

**Note 5 - General Operating Assumptions**

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

**Note 6 - Significant Assumptions for Revenues and Other Financing Sources**

**A. - General and Tangible Personal Property Taxes**

Property taxes consist of real property, public utility real and personal property, manufactured home and tangible personal property taxes. Advances may be requested from the Cuyahoga County Auditor as the taxes are collected. When settlements are made, any amounts remaining to be distributed to the School District are paid. Deductions for auditor and treasurer fees, advertising delinquent taxes, election expenses, and other fees are made at these settlement times.

State law allows reductions in the form of rollbacks and the homestead exemption for real estate taxes and exempts from taxation the first \$10,000 of tangible personal property. The State reimburses the School District for revenues lost due to these exemptions. The amount of the reimbursement is presented in the forecast statement in the account "property tax allocation".

Historically, the School District does not receive advances against the August real estate tax settlement, which is intended to finance the next fiscal year. The forecast excludes the receipt of any advances against fiscal year 2005 scheduled property tax settlements. The potential advances have been excluded due to the School District's inability to appropriate this revenue until received and the uncertainty of the timing of any advances. Currently, it is the Board's intent not to appropriate any such advances for fiscal year 2004.



East Cleveland City School District  
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 For the Fiscal Year Ending June 30, 2004

The property tax revenues for the general fund of the School District are generated from several levies. The levies for the general fund, the year approved, last year of collection, and the full tax rate are as follows:

Tax Levies	Year Approved	Full Tax Rate Per \$1,000 of Assessed Valuation
Inside Ten Mill Limitation (Unvoted)	n/a	\$4.78
Continuing Operating	1976 and Prior	50.90
Continuing Operating	1982	5.90
Continuing Operating	1985	7.90
Continuing Operating	1989	8.90
Continuing Operating	1992	10.00
Total Tax Rate		<u>\$88.38</u>

The School District has other levies for bonded debt and classroom facilities totaling \$4.22 per \$1,000 of assessed valuation. The School District's total rate is \$92.60 per \$1,000 of assessed valuation.

Ohio law provides for a reduction in the rates of voted levies to offset increased values resulting from a reappraisal of real property. Reduction factors are applied to voted levies so that each levy yields the same amount of property taxes as in the year in which the levy was approved. Increases to voted levy revenues are restricted to assessments for new construction. The reduction factors are computed annually and applied separately for residential/agricultural property and commercial/industrial property. The effective residential and agricultural rate is \$39.62 per \$1,000 of assessed valuation and the effective commercial and industrial rate is \$64.13 per \$1,000 of assessed valuation for collection year 2004.

General Property Tax (Real Estate) - General property tax revenue includes real estate taxes, public utility property taxes and manufactured home taxes. The amounts shown in the revenue section of the forecast statement represent gross property tax revenue. The general property tax revenue estimate is based upon actual receipts and information provided by the Cuyahoga County Auditor. Based upon these estimates, the School District anticipates receiving \$8,813,000 in real estate and public utility tax revenue, a decrease of \$258,000 from the prior fiscal year. The decrease is primarily due to delinquent taxes. Current delinquent taxes for tax collection year 2003 are \$1,757,000 bring the total delinquent real estate taxes to \$4,864,000.

Tangible Personal Property Tax - Tangible personal property tax is applied to property used in business (except for public utilities). As with general property taxes, estimated tangible personal property tax revenues are based upon information provided by the Cuyahoga County Auditor. Based upon these estimates, the School District anticipates \$1,488,000 in tangible personal property tax, a decrease of \$173,000 from the previous fiscal year. The decrease is primarily the result of the reduction in assessed values because of the reduction in assessment rates.

**B. - Unrestricted Grants-in-Aid**

Unrestricted grants-in-aid include State foundation payments and reimbursements for lost revenue due to utility deregulation. State foundation payments include basic and guaranteed formula aid and various categorical aid programs, equity aid, transportation and parity aid.

East Cleveland City School District  
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 For the Fiscal Year Ending June 30, 2004

The State's foundation program is established by Chapter 3317 of the Ohio Revised Code. The semi-monthly payments are calculated by the State Department of Education, Division of School Finance, on the basis of pupil enrollment (ADM) times a per pupil foundation level (adjusted for a regional cost of doing business factor set by the State legislature) less the equivalent of 23 mills times the school district's taxable property valuation. The per pupil foundation level for fiscal year 2001 was set by the legislature at \$4,294 and increased each year thereafter to \$4,490 for 2002 and \$4,949 for 2003. In 2003, the rate was changed for fiscal year 2004 to \$5,058 per pupil.

The anticipated revenue for fiscal year 2004 is based on current estimates provided by the Ohio Department of Education. The amount reported on the most recent school foundation statement of settlement is \$29,542,000. Unrestricted grants-in-aid revenue is summarized as follows:

	Fiscal Year 2003	Fiscal Year 2004	Variance
Formula Aid	\$22,148,000	\$21,010,000	(\$1,138,000)
Basic Aid Guarantee	897,000	2,368,000	1,471,000
Budget Reduction Order	(268,000)	0	268,000
Categorical Funding	1,947,000	1,689,000	(258,000)
Equity Aid	1,122,000	795,000	(327,000)
Transportation	746,000	934,000	188,000
Parity Aid	0	2,779,000	2,779,000
Foundation Adjustments	16,000	(33,000)	(49,000)
Subtotal	<u>26,608,000</u>	<u>29,542,000</u>	<u>2,934,000</u>
Utility Deregulation	578,000	581,000	3,000
Total Unrestricted Grants-in-Aid	<u><u>\$27,186,000</u></u>	<u><u>\$30,123,000</u></u>	<u><u>\$2,937,000</u></u>

Formula aid decreased due to a decline in ADM of 208 and an increase in the School District's taxable property valuation. These factors were partially offset by the increase in the per pupil foundation amount.

Basic Aid Guarantee is the amount of additional aid on top of the current years' calculated State basic aid needed to bring the School District up to the fiscal year 1998 funding level, the guaranteed amount. The increase in basic aid guarantee is due to the decrease in formula aid caused by the decrease in ADM.

The budget reduction order represents the reduction in State aid to school districts imposed by the Governor in order to balance the State's budget. No similar reduction in State aid is anticipated for fiscal year 2004.

Equity aid continues to be phased out with the percentage of the calculated amount paid to low wealth school districts going from 75 percent in fiscal year 2003 to 50 percent in fiscal year 2004.

Parity aid continues its phase in with the percentage of the calculated amount going from 40 percent in fiscal year 2003 to 58 percent in fiscal year 2004. Parity aid in the amount of \$1,918,000 was classified as restricted revenue in fiscal year 2003. Beginning in fiscal year 2004, parity aid is no longer restricted.

Beginning in tax year 2001, there were significant reductions in the valuation of certain types of public utility property. Two bills enacted by the 123<sup>rd</sup> General Assembly reduced the assessment rate for certain tangible personal property of electric utilities and all tangible personal property of gas utilities. To replace this money, new state consumption taxes have been enacted, a kilowatt-hour tax on electricity and a thousand cubic foot tax on natural gas. Money from these new taxes is used to reimburse school districts for the loss of public utility property tax revenue. Reimbursements are to be made twice a year in

East Cleveland City School District  
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 For the Fiscal Year Ending June 30, 2004

February and August. The School District is anticipating \$581,000 in public utility reimbursements in fiscal year 2004, which is based on information provided by the Ohio Department of Taxation.

**C. - Restricted Grants-in-Aid**

Restricted grants-in-aid during the forecast period consist of vocational education funding of \$343,000, a bus purchase allowance of \$60,000 and disadvantaged pupil impact aid revenues of \$5,307,000. During fiscal year 2003, the School District recorded its parity aid as restricted grants-in-aid. The limitations on the use of this money were eliminated for fiscal year 2004, so this revenue is now reported as part of unrestricted grants-in-aid.

**D. - Property Tax Allocation**

State law grants tax relief in the form of a ten percent reduction in real property tax bills. In addition, a two and one-half percent rollback is granted on residential property taxes. Tax relief is also granted to qualified elderly and disabled homeowners based on their income. The State reimburses the School District for the loss of real property taxes as a result of the rollback and homestead tax relief programs. Property tax allocation revenue, based on information provided by the Cuyahoga County Auditor, is anticipated to increase \$4,000.

**E. - All Other Revenues**

All other revenues include tuition, interest on investments, charges for classroom materials and fees, Medicaid reimbursements through Community Alternative Funding Systems (CAFS) and miscellaneous receipts from local sources.

All other revenues consist of the following:

Revenue Sources	Actual Fiscal Year 2003	Forecast Fiscal Year 2004	Variance Increase (Decrease)
Tuition	\$700,000	\$1,237,000	\$537,000
Interest on Investments	52,000	115,000	63,000
Classroom Materials and Fees	1,000	3,000	2,000
CAFS	347,000	330,000	(17,000)
Miscellaneous	418,000	257,000	(161,000)
Totals	<u>\$1,518,000</u>	<u>\$1,942,000</u>	<u>\$424,000</u>

The School District receives tuition for students with developmentally handicapped and learning disabilities as well as open enrollment. For fiscal year 2004, the School District has taken steps to collect delinquent tuition payments from other school districts, which is resulting in an anticipated \$537,000 increase.

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

East Cleveland City School District  
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Summary of Significant Assumptions and Accounting Policies  
For the Fiscal Year Ending June 30, 2004

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The decrease in miscellaneous revenue for fiscal year 2004 is the result of a large amount of refunds of prior year expenditures received in fiscal year 2003 that will not be received in fiscal year 2004.

**F. - Other Financing Sources**

The School District received a State solvency assistance advance in the amount of \$7,698,000 during the prior fiscal year. The advance is repaid monthly without interest over two fiscal years through deductions from the School District's foundation settlements.

Advances In – The School District anticipates \$947,000 in advances, which represents the repayments of amounts loaned to other funds in the prior fiscal year.

**Note 7 - Significant Assumptions for Expenditures and Other Financing Uses**

**A. - Personal Services**

Personal service expenditures represent the salaries and wages paid to certified, classified and administrative staff, substitutes, student workers and board members. In addition to regular salaries, it includes supplemental contracts, severance pay, mentor pay, optional day pays, class coverage and payment in lieu of benefits. All employees receive their compensation on a bi-weekly basis.

Certified (teacher) staff salaries are based on a negotiated contract that includes base and step increases and educational incentives. The contract covers the period of April 4, 2002 to April 3, 2005, and allows for a two percent increase in base salary as well as step increases for fiscal year 2004. The contract for classified staff covers the period of July 1, 2001 to June 30, 2004, and allows for a three percent base salary increase as well as step increases for fiscal year 2004. Step increases range from three to five percent for certified and classified staff, depending on years of service.

Salaries were forecasted by using actual payrolls for the period July 1, 2003 through March 26, 2004, with the March 26 payroll being used to estimate the remaining six payrolls. The March 26 payroll reflects general fund staff reductions of 108 employees and further reductions caused by the decision to pay certain employees from grant funds.

Substitute costs are forecasted to decrease from the prior fiscal year because substitutes used during in-service training are charged as expenditures to the qualifying grant funds. In addition, supplemental contracts and overtime have been significantly reduced during the current fiscal year.

Upon retirement, the School District offers its certified and classified employees severance pay of twenty-five percent of their unused sick leave up to a maximum of 250 days for certified employees and up to a maximum of 260 days for classified employees. Severance pay for the current fiscal year includes only those employees eligible to retire who are below 55 years of age. Severance pay for employees eligible for retirement and age 55 and over is now paid into the Bencor plan, which is classified as an employee benefit and addressed in the following section of this report

Other salaries and wages include mentor pay, optional day pays, class coverage pay, student workers and board compensation. A decrease is expected as the number of student workers and the opportunities for mentor pay and class coverage pay have decreased from prior years.

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Presented below is a comparison of salaries and wages for fiscal year 2003 and the forecast period.

	Actual Fiscal Year 2003	Forecast Fiscal Year 2004	Variance Increase (Decrease)
Certified Salaries	\$23,128,000	\$20,454,000	(\$2,674,000)
Classified Salaries	5,915,000	5,562,000	(353,000)
Substitute Salaries	1,451,000	1,095,000	(356,000)
Supplemental Contracts	358,000	272,000	(86,000)
Severance Pay	333,000	442,000	109,000
Overtime	95,000	51,000	(44,000)
Other Salaries and Wages	767,000	688,000	(79,000)
Totals	<u>\$32,047,000</u>	<u>\$28,564,000</u>	<u>(\$3,483,000)</u>

**B. - Employees' Retirement/Insurance Benefits**

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

Retirement costs are based on the School District's contribution rate of fourteen percent of the salaries of STRS and SERS members. Payments are made based upon estimated salary and wages for the fiscal year. Adjustments resulting from over/under estimates are prorated over the next calendar year. Retirement costs are forecasted to decrease primarily due to the reduction of 108 staff members.

Health care costs are based on the coverage terms of the health insurance contracts, including the extent of coverage, deductibles and co-pays, the anticipated number of employees participating in the program and the monthly premiums. Over 50 percent of covered employees are in a preferred provider medical plan and the other half are in a traditional medical plan. Health care costs are anticipated to increase due to a twenty-two percent rate increase effective October 1, 2003.

Dental and life insurance premiums are based on the term of the plan, the anticipated number of employees participating in the plan and the monthly premiums. Dental insurance cost will increase slightly. The life insurance cost will decrease as a result of decreased staffing levels.

Workers' compensation premiums are based on the School District's premium rate and the anticipated salaries for the fiscal year. Workers' compensation premiums will increase due to the School District receiving a credit of 50 percent on their premium in fiscal year 2003 compared to a 20 percent credit received in fiscal year 2004. Workers' compensation payments will decrease due to the School District paying the full premium in May 2003, compared to paying 45 percent in May 2004 and the remaining 55 percent in fiscal year 2005.

Medicare benefits are based on the employer's rate of 1.45 percent times the payroll costs for contributing staff.

Unemployment costs are based on the number of individuals whose employment with the School District ended and qualify for benefits. The School District reduced staffing levels significantly from fiscal year 2004.

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Bencor, a third party administrator, receives the severance payments for the accumulated vacation and sick leave of eligible School District employees. To qualify, employees have to retire from the School District with 25 or 30 years of service and be age 55 or older. Once notified of an employee's retirement, the School District makes a payment to Bencor. Payments to the plan are tax deferred until the retiree withdraws the monies. The School District adopted the Bencor plan on June 24, 2002. Costs are increasing in fiscal year 2004 as more employees retire before the end of the current contract.

Presented below is a comparison of fiscal year 2003 and the forecast period:

	Actual Fiscal Year 2003	Forecast Fiscal Year 2004	Variance Increase (Decrease)
Employer's Retirement	\$4,438,000	\$3,779,000	(\$659,000)
Insurances	2,905,000	3,480,000	575,000
Workers' Compensation	183,000	147,000	(36,000)
Medicare	241,000	219,000	(22,000)
Unemployment	57,000	237,000	180,000
Bencor (Severance Pay)	363,000	454,000	91,000
Totals	<u>\$8,187,000</u>	<u>\$8,316,000</u>	<u>\$129,000</u>

**C. - Purchased Services**

Purchased service expenditures forecasted in the amount of \$8,783,000 are comprised of the following:

	Actual Fiscal Year 2003	Forecast Fiscal Year 2004	Variance Increase (Decrease)
Professional and Technical Services	\$2,252,000	\$2,184,000	(\$68,000)
Property Services	1,312,000	1,142,000	(170,000)
Travel and Meeting Expenses	27,000	55,000	28,000
Communication Costs	77,000	70,000	(7,000)
Utility Services	1,039,000	1,069,000	30,000
Trade Services	36,000	23,000	(13,000)
Tuition Payments	2,418,000	3,561,000	1,143,000
Pupil Transportation	293,000	289,000	(4,000)
Other Purchased Services	489,000	390,000	(99,000)
Totals	<u>\$7,943,000</u>	<u>\$8,783,000</u>	<u>\$840,000</u>

The \$840,000 increase is primarily the result of an increase in tuition paid to other school districts for students enrolled in community schools, open enrollment, and special education.

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**D. - Supplies and Materials**

Supplies and materials are comprised of the following:

	Actual Fiscal Year 2003	Forecast Fiscal Year 2004	Variance Increase (Decrease)
General Supplies, Library Books and Periodicals	\$434,000	\$437,000	\$3,000
Operations, Maintenance and Repair	290,000	304,000	14,000
Textbooks	296,000	314,000	18,000
Totals	<u>\$1,020,000</u>	<u>\$1,055,000</u>	<u>\$35,000</u>

The increase in materials and supplies is due to the need for operational supplies and textbooks in the School District.

**E. - Capital Outlay**

The purchase or construction of property, plant and equipment that will be used in providing general governmental services are recorded as expenditures. Depreciation is not recorded for these general fixed assets, as the purpose of the financial statements for the general government services is to report the expenditure of resources, not costs.

Capital outlay expenditures are forecasted in the amount of \$86,000. The \$364,000 decrease from fiscal year 2003 is due to the School District purchasing land and buses in the prior fiscal year that will not occur during the forecast year.

**F. - Debt Service**

General fund supported debt consists of a solvency assistance advance from the State of Ohio. The School District will pay \$3,849,000 in principal during fiscal year 2004.

**G. - Other Objects**

Other object expenditures consist of dues and fees, insurance payments, judgments and taxes and assessments. The \$143,000 decrease is primarily due to an out of court settlement that was paid in fiscal year 2003.

**H. - Operating Transfers and Advances Out**

The School District expects to make transfers from the general fund in the amount of \$240,000 during fiscal year 2004 to the athletics special revenue fund and the adult education enterprise fund for operations, and \$578,000 to the food service fund to cover a projected deficit.

In the prior fiscal year, the School District's advances out included a repayment of \$1,000,000 to the bond retirement fund and \$946,000 to other funds. The general fund will advance \$193,000 to the food service fund during the current fiscal year to cover the May and June State revenues that will not be received until the next fiscal year.

East Cleveland City School District  
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**Note 8 - Encumbrances**

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

Encumbrances for benefits, purchased services, supplies and materials, capital outlay and other objects expenditures as of June 30, 2003 were \$794,000 and are forecasted to be \$800,000 as of June 30, 2004.

**Note 9 - Reservations of Fund Balance**

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

**A. - Textbooks and Instructional Materials**

The set aside requirement for fiscal year 2004 is \$765,000. There was a carryover of \$145,000 in unspent set-aside dollars from fiscal year 2003. The School District will have \$567,000 in qualifying expenditures for textbooks and instructional materials during the current fiscal year; therefore, a reserve of \$343,000 for textbooks and instructional materials is forecasted.

**B. - Capital Acquisition and Improvements**

The set aside amount for fiscal year 2004 is \$765,000. There was a carryover of \$8,366,000 in excess qualified expenditures from the prior fiscal years. The School District anticipates \$120,459 in offsets in fiscal year 2004; therefore, no reserve for capital acquisition and improvements is forecasted.

**Note 10 - Levies**

In the past ten years, the School District has placed several levies on the ballot. The type of levy, rate, term, and election results are as follows:

<u>Date</u>	<u>Type</u>	<u>Amount</u>	<u>Term</u>	<u>Election Results</u>
November 1997	Classroom Facilities	.5 mills	23 Years	Passed
November 1997	Bond Issue	\$10,559,716	23 Years	Passed



East Cleveland City School District  
Cuyahoga County  
Summary of Significant Assumptions and Accounting Policies  
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**Note 11 - Pending Litigation**

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

**Note 12 - State School Funding Decision**

On December 11, 2002, the Ohio Supreme Court issued its latest opinion regarding the State's school funding plan. The decision reaffirmed earlier decisions that Ohio's current school-funding decision is unconstitutional.

The Supreme Court relinquished jurisdiction over the case and directed "...the Ohio General Assembly to enact a school-funding scheme that is thorough and efficient..."

The School District is currently unable to determine what effect, if any, this decision will have on its future State funding and on its financial operations.

**Note 13 – Financial Planning and Supervision Commission**

On April 3, 2003, the School District was declared to be in a state of "Fiscal Emergency" by the Auditor of State. Legislation effective September 1996, permitted this declaration due to the School District's declining financial condition. In accordance with the law, a five-member Financial Planning and Supervision Commission has been established to oversee the financial affairs of the School District. The Commission is comprised of the State Superintendent of Public Instruction and the State Director of Budget and Management or their designees, and three appointed members. The appointments are made by the Governor of the State of Ohio, the State Superintendent of Public Instruction and the Mayor of the City of East Cleveland.

The Commission's primary charge is to develop, adopt and implement a financial recovery plan. The financial recovery plan was adopted on July 29, 2003 and under State law is to be updated annually. The recovery plan includes the reduction of 130 staff members paid from the general fund.



**Auditor of State  
Betty Montgomery**

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**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  
APRIL 29, 2004**