



OHIO AUDITOR OF STATE  
**KEITH FABER**





**EAST CLEVELAND CITY SCHOOL DISTRICT  
CUYAHOGA COUNTY  
JUNE 30, 2018**

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CUYAHOGA COUNTY  
JUNE 30, 2018**

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# OHIO AUDITOR OF STATE KEITH FABER



## INDEPENDENT AUDITOR'S REPORT

East Cleveland City School District  
Cuyahoga County  
1843 Stanwood Drive  
East Cleveland, Ohio 44112

To the Board of Education:

### ***Report on the Financial Statements***

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the East Cleveland City School District, Cuyahoga County, Ohio (the District), as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

### ***Management's Responsibility for the Financial Statements***

Management is responsible for preparing and fairly presenting these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes designing, implementing, and maintaining internal control relevant to preparing and fairly presenting financial statements that are free from material misstatement, whether due to fraud or error.

### ***Auditor's Responsibility***

Our responsibility is to opine on these financial statements based on our audit. We audited in accordance with auditing standards generally accepted in the United States of America and the financial audit standards in the Comptroller General of the United States' *Government Auditing Standards*. Those standards require us to plan and perform the audit to reasonably assure the financial statements are free from material misstatement.

An audit requires obtaining evidence about financial statement amounts and disclosures. The procedures selected depend on our judgment, including assessing the risks of material financial statement misstatement, whether due to fraud or error. In assessing those risks, we consider internal control relevant to the District's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not to the extent needed to opine on the effectiveness of the District's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of management's accounting policies and the reasonableness of their significant accounting estimates, as well as our evaluation of the overall financial statement presentation.

We believe the audit evidence we obtained is sufficient and appropriate to support our audit opinions.

**Opinion**

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the East Cleveland City School District, Cuyahoga County, Ohio, as of June 30, 2018, and the respective changes in financial position and, where applicable, cash flows thereof and the respective budgetary comparisons for the General and Title I Funds thereof for the year then ended in accordance with the accounting principles generally accepted in the United States of America.

**Emphasis of Matter**

As discussed in Note 3 to the financial statements, during 2018, the District adopted new accounting guidance in Governmental Accounting Standards Board (GASB) Statement No. 75 *Accounting and Financial Reporting for Postemployment Benefits Other than Pensions*. We did not modify our opinion regarding this matter. As further discussed in Note 3 to the financial statements, the District restated June 30, 2017 fund balances due to prior years' errors in interfund transactions and balances. We did not modify our opinion regarding this matter.

**Other Matters**

*Required Supplementary Information*

Accounting principles generally accepted in the United States of America require this presentation to include *management's discussion and analysis* and schedules of net pension and other post-employment benefit liabilities and pension and other post-employment benefit contributions 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 applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, consisting of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, to the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not opine or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to opine or provide any other assurance.

*Supplementary and Other Information*

Our audit was conducted to opine on the District's basic financial statements taken as a whole.

The Schedule of Expenditures of Federal Awards presents additional analysis as required by Title 2 U.S. Code of Federal Regulations (CFR) Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards and is not a required part of the financial statements.

The schedule is management's responsibility, and derives from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. We subjected this information 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.

***Other Reporting Required by Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated May 29, 2019, 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. That report describes the scope of our internal control testing over financial reporting and compliance, and the results of that testing, and does not opine on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.

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

Keith Faber  
Auditor of State  
Columbus, Ohio

May 29, 2019

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**East Cleveland City School District**  
*Management's Discussion and Analysis*  
*For the Fiscal Year Ended June 30, 2018*  
*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, 2018. 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 2018 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 \$13,947,279 made up the second largest share of all revenues.
- ❑ The fund balance in the School District's governmental funds increased from the prior fiscal year. This increase is due to current year revenues exceeding current year expenditures by \$1,185,699.

### **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 position 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 most significant funds are the general fund and the title I special revenue fund.

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

#### *Statement of Net Position 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 fiscal year 2018?" The statement of net position and the statement of activities provide the basis for answering these questions. The statements include all non-fiduciary assets and deferred outflows of resources and liabilities and deferred inflows of resources 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*  
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*Unaudited*

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These two statements report the School District's net position and any change in that position. The change in net position 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 position 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 funds begin on page 12. 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 major funds are the general fund and the title I special revenue fund.

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

**Proprietary Funds** The School District maintains one proprietary fund. Internal service funds are an accounting device used to accumulate and allocate costs internally among the School District's various functions. The School District's internal service fund accounts for revenues used to provide for medical claims of School District employees. The proprietary fund uses the accrual basis of accounting.

**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 position provides the perspective of the School District as a whole, showing assets, deferred outflows of resources, liabilities, deferred inflows of resources and the difference between them (net position). Table 1 provides a summary of the School District's net position for fiscal year 2018 compared to fiscal year 2017:

**East Cleveland City School District**  
*Management's Discussion and Analysis*  
*For the Fiscal Year Ended June 30, 2018*  
*Unaudited*

**Table 1**  
Net Position

	Governmental Activities		
	2018	2017	Change
<b>Assets</b>			
Current and Other Assets	\$30,473,552	\$30,306,228	\$167,324
Capital Assets, Net	65,752,621	68,199,751	(2,447,130)
<b>Total Assets</b>	<b>96,226,173</b>	<b>98,505,979</b>	<b>(2,279,806)</b>
<b>Deferred Outflows of Resources</b>			
Deferred Charge on Refunding	43,373	61,320	(17,947)
Pension	14,106,179	12,568,115	1,538,064
OPEB	488,978	67,073	421,905
<b>Total Deferred Outflows of Resources</b>	<b>14,638,530</b>	<b>12,696,508</b>	<b>1,942,022</b>
<b>Liabilities</b>			
Current and Other Liabilities	4,311,956	3,949,854	(362,102)
Long-Term Liabilities:			
Due Within One Year	1,907,809	2,173,662	265,853
Due in More than One Year:			
Net Pension Liability	49,749,411	71,363,850	21,614,439
Net OPEB Liability	11,247,759	14,312,240	3,064,481
Other Amounts	5,229,279	6,196,036	966,757
<b>Total Liabilities</b>	<b>72,446,214</b>	<b>97,995,642</b>	<b>25,549,428</b>
<b>Deferred Inflows of Resources</b>			
Property Taxes	6,181,047	6,183,808	2,761
Pension	7,545,232	5,222,311	(2,322,921)
OPEB	1,613,549	0	(1,613,549)
<b>Total Deferred Inflows of Resources</b>	<b>15,339,828</b>	<b>11,406,119</b>	<b>(3,933,709)</b>
<b>Net Position</b>			
Net Investment in Capital Assets	63,137,265	64,727,560	(1,590,295)
Restricted:			
Capital Projects	542,316	542,294	22
Debt Service	2,488,522	2,438,910	49,612
Other Purposes	2,591,606	3,182,940	(591,334)
Unrestricted (Deficit)	(45,681,048)	(69,090,978)	23,409,930
<b>Total Net Position</b>	<b>\$23,078,661</b>	<b>\$1,800,726</b>	<b>\$21,277,935</b>

The net pension liability (NPL) is the largest single liability reported by the School District at June 30, 2018 and is reported pursuant to GASB Statement 68, "Accounting and Financial Reporting for Pensions—an Amendment of GASB Statement 27." For fiscal year 2018, the School District adopted GASB Statement 75, "Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions," which significantly revises accounting for costs and liabilities related to other postemployment benefits (OPEB). For reasons discussed below, many end users of this financial statement will gain a clearer understanding of the School District's actual financial condition by adding deferred inflows related to pension and OPEB, the net pension liability and the net OPEB liability to the reported net position and subtracting deferred outflows related to pension and OPEB.

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

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Governmental Accounting Standards Board standards are national and apply to all government financial reports prepared in accordance with generally accepted accounting principles. Prior accounting for pensions (GASB 27) and postemployment benefits (GASB 45) focused on a funding approach. This approach limited pension and OPEB costs to contributions annually required by law, which may or may not be sufficient to fully fund each plan's net pension liability or net OPEB liability. GASB 68 and GASB 75 take an earnings approach to pension and OPEB accounting; however, the nature of Ohio's statewide pension/OPEB plans and state law governing those systems requires additional explanation in order to properly understand the information presented in these statements.

GASB 68 and GASB 75 require the net pension liability and the net OPEB liability to equal the School District's proportionate share of each plan's collective:

1. Present value of estimated future pension/OPEB benefits attributable to active and inactive employees' past service
2. Minus plan assets available to pay these benefits

GASB notes that pension and OPEB obligations, whether funded or unfunded, are part of the "employment exchange" – that is, the employee is trading his or her labor in exchange for wages, benefits, and the promise of a future pension and other postemployment benefits. GASB noted that the unfunded portion of this promise is a present obligation of the government, part of a bargained-for benefit to the employee, and should accordingly be reported by the government as a liability since they received the benefit of the exchange. However, the School District is not responsible for certain key factors affecting the balance of these liabilities. In Ohio, the employee shares the obligation of funding pension benefits with the employer. Both employer and employee contribution rates are capped by State statute. A change in these caps requires action of both Houses of the General Assembly and approval of the Governor. Benefit provisions are also determined by State statute. The Ohio Revised Code permits, but does not require the retirement systems to provide healthcare to eligible benefit recipients. The retirement systems may allocate a portion of the employer contributions to provide for these OPEB benefits.

The employee enters the employment exchange with the knowledge that the employer's promise is limited not by contract but by law. The employer enters the exchange also knowing that there is a specific, legal limit to its contribution to the retirement system. In Ohio, there is no legal means to enforce the unfunded liability of the pension/OPEB plan as against the public employer. State law operates to mitigate/lessen the moral obligation of the public employer to the employee, because all parties enter the employment exchange with notice as to the law. The retirement system is responsible for the administration of the pension and OPEB plans.

Most long-term liabilities have set repayment schedules or, in the case of compensated absences (i.e. sick and vacation leave), are satisfied through paid time-off or termination payments. There is no repayment schedule for the net pension liability or the net OPEB liability. As explained above, changes in benefits, contribution rates, and return on investments affect the balance of these liabilities, but are outside the control of the local government. In the event that contributions, investment returns, and other changes are insufficient to keep up with required payments, State statute does not assign/identify the responsible party for the unfunded portion. Due to the unique nature of how the net pension liability and the net OPEB liability are satisfied, these liabilities are separately identified within the long-term liability section of the statement of net position.

In accordance with GASB 68 and GASB 75, the School District's statements prepared on an accrual basis of accounting include an annual pension expense and an annual OPEB expense for their proportionate share of each plan's change in net pension liability and net OPEB liability, respectively, not accounted for as deferred inflows/outflows.

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*Management's Discussion and Analysis*  
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In accordance with GASB 68, the School District's statements prepared on an accrual basis of accounting include an annual pension expense for their proportionate share of each plan's *change* in net pension liability not accounted for as deferred inflows/outflows.

As a result of implementing GASB 75, the School District is reporting a net OPEB liability and deferred inflows/outflows of resources related to OPEB on the accrual basis of accounting. This implementation also had the effect of reducing net position at June 30, 2017 from \$14,493,081 to \$1,800,726.

Net position increased primarily as a result of a decrease in net pension liability and net OPEB liability.

Table 2 shows the changes in net position for the fiscal year ended June 30, 2018 compared to fiscal year 2017.

**Table 2**  
Change in Net Position

	Governmental Activities		
	2018	2017	Change
<b>Revenues</b>			
Program Revenues:			
Charges for Services and Sales	\$4,881,293	\$5,298,168	(\$416,875)
Operating Grants and Contributions	9,065,986	9,885,486	(819,500)
Total Program Revenues	<u>13,947,279</u>	<u>15,183,654</u>	<u>(1,236,375)</u>
General Revenues:			
Property Taxes	7,855,786	8,111,707	(255,921)
Grants and Entitlements	30,985,458	31,948,746	(963,288)
Investment Earnings	162,531	69,219	93,312
Unrestricted Contributions and Donations	0	2,030	(2,030)
Miscellaneous	390,556	667,143	(276,587)
Total General Revenues	<u>39,394,331</u>	<u>40,798,845</u>	<u>(1,404,514)</u>
Total Revenues	<u>53,341,610</u>	<u>55,982,499</u>	<u>(2,640,889)</u>
<b>Program Expenses</b>			
Instruction	15,849,172	35,144,005	(19,294,833)
Support Services:			
Pupil	49,170	2,571,614	(2,522,444)
Instructional Staff	1,368,710	3,693,726	(2,325,016)
Board of Education	71,133	67,670	3,463
Administration	2,941,759	4,450,526	(1,508,767)
Fiscal	1,537,760	1,103,534	434,226
Business	561,007	605,217	(44,210)
Operation and Maintenance of Plant	4,458,730	4,604,178	(145,448)
Pupil Transportation	1,297,978	1,423,787	(125,809)
Central	2,163,484	2,552,918	(389,434)
Operation of Non-Instructional Services:			
Food Service Operations	1,047,872	1,508,048	(460,176)
Other Non-Instructional Services	92,877	105,345	(12,468)
Extracurricular Activities	480,961	591,124	(110,163)
Interest and Fiscal Charges	143,062	188,988	(45,926)
Total Program Expenses	<u>32,063,675</u>	<u>58,610,680</u>	<u>(26,547,005)</u>
Change in Net Position	21,277,935	(2,628,181)	23,906,116
Net Position Beginning of Year	1,800,726	4,428,907	(2,628,181)
Net Position End of Year	<u>\$23,078,661</u>	<u>\$1,800,726</u>	<u>\$21,277,935</u>

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

The information necessary to restate the 2017 beginning balances and the 2017 OPEB expense amounts for the effects of the initial implementation of GASB 75 is not available. Therefore, 2017 functional expenses still include OPEB expense of \$67,073 computed under GASB 45. GASB 45 required recognizing pension expense equal to the contractually required contributions to the plan. Under GASB 75, OPEB expense represents additional amounts earned, adjusted by deferred inflows/outflows. The contractually required contribution is no longer a component of OPEB expense. Under GASB 75, the 2018 statements report negative OPEB expense of \$1,763,978. Consequently, in order to compare 2018 total program expenses to 2017, the following adjustments are needed:

Total 2018 program expenses under GASB 75	\$32,063,675
Negative OPEB expense under GASB 75	1,763,978
2018 contractually required contribution	<u>108,859</u>
Adjusted 2018 program expenses	33,936,512
Total 2017 program expenses under GASB 45	<u>58,610,680</u>
Decrease in program expenses not related to OPEB	<u><u>(\$24,674,168)</u></u>

The largest component of the decrease in program expenses results from changes in assumptions and benefit terms related to pensions. STRS adopted certain assumption changes, including a reduction in their discount rate, and also voted to suspend cost of living adjustments (COLA). SERS decreased their COLA assumption. (See Note 22) As a result of these changes, pension expense decreased from \$4,667,194 in fiscal year 2017 to a negative pension expense of \$17,704,223 for fiscal year 2018. The allocation of the fiscal year 2018 negative pension expense to program expenses is as follows:

<b>Program Expenses</b>	<b>2018 Program Expenses Related to Negative Pension Expense</b>
<b>Instruction:</b>	
Regular	(\$7,734,581)
Special	(5,259,509)
Vocational	(909,540)
<b>Support Services:</b>	
Pupils	(2,131,618)
Instructional Staff	(558,131)
Administration	(889,443)
Operation and Maintenance of Plant	(10,263)
Pupil Transportation	(46,510)
Food Service Operations	<u>(164,628)</u>
Total Expenses	<u><u>(\$17,704,223)</u></u>

**East Cleveland City School District**  
*Management's Discussion and Analysis*  
*For the Fiscal Year Ended June 30, 2018*  
*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 2018. Charges for services, tuition and fees, extracurricular, contributions and donations, investments and miscellaneous revenue made up the remainder of total revenues.

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

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

**Table 3**  
 Net Cost of Governmental Activities

	Total Cost of Services 2018	Net Cost of Services 2018	Total Cost of Services 2017	Net Cost of Services 2017
Instruction:	\$15,849,172	\$7,528,291	\$35,144,005	\$26,564,566
Support Services:				
Pupils	49,170	(627,625)	2,571,614	2,046,797
Instructional Staff	1,368,710	(271,621)	3,693,726	1,025,470
Board of Education	71,133	63,646	67,670	60,116
Administration	2,941,759	2,164,487	4,450,526	3,726,007
Fiscal	1,537,760	1,377,674	1,103,534	930,322
Business	561,007	501,659	605,217	539,277
Operation and Maintenance of Plant	4,458,730	3,990,848	4,604,178	4,100,260
Pupil Transportation	1,297,978	1,129,794	1,423,787	1,243,866
Central	2,163,484	1,935,522	2,552,918	2,275,669
Operation of Non-Instructional Services:				
Operation of Food Services	1,047,872	(263,885)	1,508,048	235,649
Other Non-Instructional Services	92,877	16,883	105,345	13,845
Extracurricular Activities	480,961	427,661	591,124	476,194
Interest and Fiscal Charges	143,062	143,062	188,988	188,988
<b>Total</b>	<b>\$32,063,675</b>	<b>\$18,116,396</b>	<b>\$58,610,680</b>	<b>\$43,427,026</b>

The dependence on tax revenues and State subsidies for governmental activities is apparent, representing 72.8 percent of all revenues.

**East Cleveland City School District**  
*Management's Discussion and Analysis*  
*For the Fiscal Year Ended June 30, 2018*  
*Unaudited*

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**The School District's Funds**

Information about the School District's governmental funds begins with the balance sheet on page 17. These funds are accounted for using the modified accrual basis of accounting. All governmental funds had total revenues of \$55,141,363 and expenditures of \$53,955,664. The net change in fund balance for the fiscal year 2018 in the general fund was an increase of \$178,623, due to revenues outpacing expenditures. The net change in fund balance for the year in the Title I special revenue fund was an increase of \$720,976 due to revenues exceeding expenditures.

**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.

The general fund original budgeted revenues amounted to \$50,441,546, final budgeted revenues amounted to \$49,090,986, and actual revenue amounted to \$46,668,170. Final budgeted revenues exceeded actual revenue by \$2,422,816, primarily due to lower than anticipated intergovernmental and tuition and fees receipts. The general fund original budgeted expenditures amounted to \$52,184,511, final budgeted expenditures amounted to \$52,808,919, and actual expenditures amounted to \$47,572,724. Actual expenditures were lower than final budgeted expenditures by \$5,236,195, primarily due to prudent spending. The School District ended the current fiscal year with an increase in fund balance from fiscal year 2017.

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 2018 balances compared to fiscal year 2017.

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

	Governmental Activities		
	2018	2017	Change
Land	\$2,389,900	\$2,389,900	\$0
Land Improvements	1,003,940	1,082,341	(78,401)
Buildings and Improvements	61,335,359	63,667,826	(2,332,467)
Furniture and Equipment	985,265	1,010,965	(25,700)
Vehicles	38,157	48,719	(10,562)
<b>Total Capital Assets</b>	<b>\$65,752,621</b>	<b>\$68,199,751</b>	<b>(\$2,447,130)</b>



**East Cleveland City School District**  
*Management's Discussion and Analysis*  
*For the Fiscal Year Ended June 30, 2018*  
*Unaudited*

All capital assets, except land, are reported net of depreciation. The decrease in capital assets was due to current year depreciation exceeding minimal additions to capital assets. In prior fiscal 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 13 of the notes to the basic financial statements.

For fiscal year 2018, Ohio law required school districts to expend or otherwise reserve three percent of qualifying revenues for the purpose of capital improvements. For fiscal year 2018, this amounted to \$377,456. The School District had qualifying disbursements exceeding these requirements. See Note 20 for additional set-aside information.

***Debt***

At June 30, 2018, the School District had the following outstanding debt:

**Table 5**  
 Outstanding Debt at June 30

	Governmental Activities	
	2018	2017
General Obligation Bonds:		
2007 School Improvement Refunding Bonds	\$2,226,619	\$2,903,323
Capital Leases	432,110	630,188
	\$2,658,729	\$3,533,511

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 \$13,872,535 with an unvoted debt margin of \$152,619. For additional information on long-term obligations, see Note 18 of the notes to the basic financial statements.

**Current Financial Related Activities**

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

The School District does not anticipate any meaningful growth in revenue as a result of any of the changes in taxes. Based on these factors, the Board of Education and the administration of the School District must maintain careful financial planning and prudent fiscal management in order to preserve the financial stability of the School District.

***Challenges and Opportunities***

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.

**East Cleveland City School District**  
*Management's Discussion and Analysis*  
*For the Fiscal Year Ended June 30, 2018*  
*Unaudited*

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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 Diana C. Whitt, Treasurer/CFO at East Cleveland City School District, 1843 Stanwood Road, East Cleveland, Ohio 44112-2901.

**East Cleveland City School District**  
*Statement of Net Position*  
June 30, 2018

	Governmental Activities
<b>Assets</b>	
Equity in Pooled Cash and Cash Equivalents	\$17,310,567
Cash and Cash Equivalents in Segregated Accounts	4,124
Cash and Cash Equivalents with Fiscal Agents	923,854
Accounts Receivable	18,548
Intergovernmental Receivable	2,039,279
Prepaid Items	113,697
Inventory Held for Resale	3,561
Materials and Supplies Inventory	2,707
Property Taxes Receivable	10,057,215
Nondepreciable Capital Assets	2,389,900
Depreciable Capital Assets	63,362,721
<i>Total Assets</i>	96,226,173
<b>Deferred Outflows of Resources</b>	
Deferred Charge on Refunding	43,373
Pension	14,106,179
OPEB	488,978
<i>Total Deferred Outflows of Resources</i>	14,638,530
<b>Liabilities</b>	
Accounts Payable	208,307
Accrued Wages and Benefits Payable	2,451,858
Intergovernmental Payable	1,068,395
Matured Compensated Absences Payable	139,807
Accrued Interest Payable	9,854
Claims Payable	433,735
Long-Term Liabilities:	
Due Within One Year	1,907,809
Due in More Than One Year:	
Net Pension Liability (See Note 22)	49,749,411
Net OPEB Liability (See Note 23)	11,247,759
Other Amounts Due in More Than One Year	5,229,279
<i>Total Liabilities</i>	72,446,214
<b>Deferred Inflows of Resources</b>	
Property Taxes	6,181,047
Pension	7,545,232
OPEB	1,613,549
<i>Total Deferred Inflows of Resources</i>	15,339,828
<b>Net Position</b>	
Net Investment in Capital Assets	63,137,265
Restricted for:	
Capital Projects	542,316
Debt Service	2,488,522
Food Service	1,061,448
Educational Services	1,264,348
Other Purposes	180,790
Unclaimed Monies	85,020
Unrestricted (Deficit)	(45,681,048)
<i>Total Net Position</i>	\$23,078,661

See accompanying notes to the basic financial statements

**East Cleveland City School District**  
*Statement of Activities*  
For the Fiscal Year Ended June 30, 2018

	Program Revenues			Net (Expense) Revenue and Changes in Net Position
	Expenses	Charges for Services and Sales	Operating Grants and Contributions	Governmental Activities
<b>Governmental Activities</b>				
Instruction:				
Regular	\$2,463,805	\$1,024,857	\$14,089	(\$1,424,859)
Special	4,883,777	985,503	4,966,935	1,068,661
Vocational	92,640	124,789	319,683	351,832
Adult/Continuing	791	83	0	(708)
Student Intervention Services	8,408,159	884,942	0	(7,523,217)
Support Services:				
Pupil	49,170	234,537	442,258	627,625
Instructional Staff	1,368,710	89,246	1,551,085	271,621
Board of Education	71,133	7,487	0	(63,646)
Administration	2,941,759	394,834	382,438	(2,164,487)
Fiscal	1,537,760	160,086	0	(1,377,674)
Business	561,007	59,348	0	(501,659)
Operation and Maintenance of Plant	4,458,730	455,363	12,519	(3,990,848)
Pupil Transportation	1,297,978	142,066	26,118	(1,129,794)
Central	2,163,484	227,962	0	(1,935,522)
Operation of Non-Instructional Services:				
Operation of Food Services	1,047,872	36,890	1,274,867	263,885
Other Non-Instructional Services	92,877	0	75,994	(16,883)
Extracurricular Activities	480,961	53,300	0	(427,661)
Interest and Fiscal Charges	143,062	0	0	(143,062)
<i>Total Governmental Activities</i>	<u>\$32,063,675</u>	<u>\$4,881,293</u>	<u>\$9,065,986</u>	<u>(18,116,396)</u>
<b>General Revenues</b>				
Property Taxes Levied for:				
General Purposes				7,093,636
Debt Service				705,440
Capital Outlay				56,710
Grants and Entitlements not Restricted to Specific Programs				30,985,458
Investment Earnings				162,531
Miscellaneous				390,556
<i>Total General Revenues</i>				<u>39,394,331</u>
Change in Net Position				21,277,935
<i>Net Position Beginning of Year - Restated (See Note 3)</i>				<u>1,800,726</u>
<i>Net Position End of Year</i>				<u>\$23,078,661</u>

See accompanying notes to the basic financial statements

**East Cleveland City School District**

*Balance Sheet  
Governmental Funds  
June 30, 2018*

	<u>General</u>	<u>Title I</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
<b>Assets</b>				
Equity in Pooled Cash and Cash Equivalents	\$12,896,591	\$136,907	\$4,192,049	\$17,225,547
Cash and Cash Equivalents in Segregated Accounts	4,124	0	0	4,124
Restricted Asset:				
Equity in Pooled Cash and Cash Equivalents	85,020	0	0	85,020
Accounts Receivable	7,388	0	11,160	18,548
Intergovernmental Receivable	239,290	569,479	1,230,510	2,039,279
Prepaid Items	111,115	0	2,582	113,697
Inventory Held for Resale	0	0	3,561	3,561
Materials and Supplies Inventory	0	0	2,707	2,707
Interfund Receivable	1,598,903	312,138	521,304	2,432,345
Property Taxes Receivable	9,083,127	0	974,088	10,057,215
<i>Total Assets</i>	<u>\$24,025,558</u>	<u>\$1,018,524</u>	<u>\$6,937,961</u>	<u>\$31,982,043</u>
<b>Liabilities</b>				
Accounts Payable	\$179,531	\$11,088	\$17,688	\$208,307
Accrued Wages and Benefits Payable	2,203,592	101,017	147,249	2,451,858
Intergovernmental Payable	1,021,928	23,770	22,697	1,068,395
Interfund Payable	544,444	133,246	1,754,655	2,432,345
Matured Compensated Absences Payable	139,807	0	0	139,807
<i>Total Liabilities</i>	<u>4,089,302</u>	<u>269,121</u>	<u>1,942,289</u>	<u>6,300,712</u>
<b>Deferred Inflows of Resources</b>				
Unavailable Revenue	2,150,852	337,403	1,061,028	3,549,283
Property Taxes	5,611,278	0	569,769	6,181,047
<i>Total Deferred Inflows of Resources</i>	<u>7,762,130</u>	<u>337,403</u>	<u>1,630,797</u>	<u>9,730,330</u>
<b>Fund Balances</b>				
Nonspendable	196,135	0	5,289	201,424
Restricted	0	412,000	4,357,177	4,769,177
Assigned	7,251,229	0	0	7,251,229
Unassigned (Deficit)	4,726,762	0	(997,591)	3,729,171
<i>Total Fund Balances</i>	<u>12,174,126</u>	<u>412,000</u>	<u>3,364,875</u>	<u>15,951,001</u>
<i>Total Liabilities, Deferred Inflows of Resources and Fund Balance</i>	<u>\$24,025,558</u>	<u>\$1,018,524</u>	<u>\$6,937,961</u>	<u>\$31,982,043</u>

See accompanying notes to the basic financial statements

**East Cleveland City School District**  
*Reconciliation of Total Governmental Fund Balances to  
 Net Position of Governmental Activities  
 June 30, 2018*

<b>Total Governmental Funds Balances</b>	<b>\$15,951,001</b>
 <i>Amounts reported for governmental activities in the statement of net position are different because:</i>	
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.	65,752,621
Other long-term assets are not available to pay for current-period expenditures and therefore are reported as unavailable in the funds:	
Delinquent Property Taxes	2,361,518
Intergovernmental	1,183,909
Tuition and Fees	<u>3,856</u>
Total	3,549,283
In the statement of activities, interest is accrued on outstanding bonds, whereas in governmental funds, an interest expenditure is reported when due.	(9,854)
The internal service funds are used by management to charge the costs of insurance and goods warehoused and distributed to individual funds. The assets and liabilities of the internal service fund are included in governmental activities in the statement of net assets.	490,119
Deferred outflows of resources represent deferred charges on refundings, which are not reported in the funds.	43,373
Long-term liabilities are not due and payable in the current period and therefore are not reported in the funds:	
General Obligation Bonds	(2,226,619)
Capital Leases	(432,110)
Compensated Absences	<u>(4,478,359)</u>
Total	(7,137,088)
The net pension liability and net OPEB liability is not due and payable in the current period; therefore, the liability and related deferred inflows/outflows are not reported in the governmental funds:	
Deferred Outflows - Pension	14,106,179
Net Pension Liability	(49,749,411)
Deferred Inflows - Pension	(7,545,232)
Deferred Outflows - OPEB	488,978
Net OPEB Liability	(11,247,759)
Deferred Inflows - OPEB	<u>(1,613,549)</u>
Total	<u>(55,560,794)</u>
 <i>Net Position of Governmental Activities</i>	 <u><u>\$23,078,661</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, 2018*

	General	Title I	Other Governmental Funds	Total Governmental Funds
<b>Revenues</b>				
Property Taxes	\$7,341,010	\$0	\$789,304	\$8,130,314
Intergovernmental	34,147,238	3,849,456	3,234,930	41,231,624
Interest	160,879	0	0	160,879
Charges for Services	7,638	0	36,890	44,528
Tuition and Fees	4,941,275	0	0	4,941,275
Extracurricular Activities	7,370	0	13,611	20,981
Contributions and Donations	1,845	0	219,361	221,206
Miscellaneous	390,555	0	1	390,556
<i>Total Revenues</i>	<u>46,997,810</u>	<u>3,849,456</u>	<u>4,294,097</u>	<u>55,141,363</u>
<b>Expenditures</b>				
Current:				
Instruction:				
Regular	9,942,117	0	43,190	9,985,307
Special	9,509,385	1,164,878	1,171,107	11,845,370
Vocational	1,187,219	0	58,076	1,245,295
Adult/Continuing	795	0	0	795
Student Intervention Services	8,454,033	0	0	8,454,033
Support Services:				
Pupil	2,236,183	327,071	244,528	2,807,782
Instructional Staff	755,209	1,281,473	176,612	2,213,294
Board of Education	71,521	0	0	71,521
Administration	3,758,247	228,589	192,135	4,178,971
Fiscal	1,553,798	0	17,074	1,570,872
Business	554,702	0	0	554,702
Operation and Maintenance of Plant	4,331,387	1,671	165,673	4,498,731
Pupil Transportation	1,350,091	31,921	0	1,382,012
Central	2,256,464	0	0	2,256,464
Operation of Non-Instructional Services	0	92,877	0	92,877
Operation of Food Services	0	0	1,319,967	1,319,967
Extracurricular Activities	358,450	0	116,367	474,817
Debt Service:				
Principal Retirement	198,078	0	645,000	843,078
Interest and Fiscal Charges	23,788	0	135,988	159,776
<i>Total Expenditures</i>	<u>46,541,467</u>	<u>3,128,480</u>	<u>4,285,717</u>	<u>53,955,664</u>
<i>Excess of Revenues Over (Under) Expenditures</i>	<u>456,343</u>	<u>720,976</u>	<u>8,380</u>	<u>1,185,699</u>
<b>Other Financing Sources (Uses)</b>				
Transfers In	0	0	277,720	277,720
Transfers Out	(277,720)	0	0	(277,720)
<i>Total Other Financing Sources (Uses)</i>	<u>(277,720)</u>	<u>0</u>	<u>277,720</u>	<u>0</u>
<i>Net Change in Fund Balances</i>	178,623	720,976	286,100	1,185,699
<i>Fund Balances (Deficit) Beginning of Year - Restated (See Note 3)</i>	<u>11,995,503</u>	<u>(308,976)</u>	<u>3,078,775</u>	<u>14,765,302</u>
<i>Fund Balances (Deficit) End of Year</i>	<u>\$12,174,126</u>	<u>\$412,000</u>	<u>\$3,364,875</u>	<u>\$15,951,001</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, 2018*

<b>Net Change in Fund Balances -Total Governmental Funds</b>	<b>\$1,185,699</b>
<i>Amounts reported for governmental activities in the statement of activities are different because:</i>	
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	193,504
Current Year Depreciation	<u>(2,635,855)</u>
Total	(2,442,351)
Governmental funds only report the disposal of capital assets to the extent proceeds are received from the sale. In the statement of activities, a gain or loss is reported for each disposal.	
	(4,779)
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds:	
Delinquent Property Taxes	(274,528)
Intergovernmental	(1,401,386)
Tuition and Fees	<u>(125,491)</u>
Total	(1,801,405)
In the statement of activities, interest accrued on outstanding bonds, bond premium, 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 and loss on refunding are reported when the bonds are issued:	
Accrued Interest	2,957
Amortization of Bond Premium	31,704
Amortization of Accounting Loss	<u>(17,947)</u>
Total	16,714
Repayment of bond and capital lease principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net position.	
	843,078
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.	
	357,828
The internal service fund used by management to charge the costs of insurance to individual funds are not reported in the district-wide statement of activities. Governmental fund expenditures and related internal service fund revenues are eliminated. The net revenue (expense) of the internal service fund are allocated among the governmental activities	
	420,732
Contractually required contributions are reported as expenditures in governmental funds however, the statement of net position reports these amounts in deferred outflows	
Pension	3,125,359
OPEB	<u>108,859</u>
Total	3,234,218
Except for amounts reported as deferred inflows/outflows, changes in the net pension OPEB liability are reported as pension expense in the statement of activities	
Pension	17,704,223
OPEB	<u>1,763,978</u>
Total	<u>19,468,201</u>
<i>Change in Net Position of Governmental Activities</i>	<u><u>\$21,277,935</u></u>

See accompanying notes to the basic financial statements



**East Cleveland City School District**  
*Statement of Revenues, Expenditures and Changes*  
*in Fund Balance - Budget (Non-GAAP Basis) and Actual*  
*General Fund*  
*For the Fiscal Year Ended June 30, 2018*

	<u>Budgeted Amounts</u>			Variance with Final Budget Positive (Negative)
	<u>Original</u>	<u>Final</u>	<u>Actual</u>	
<b>Revenues</b>				
Property Taxes	\$7,981,735	\$7,322,276	\$7,207,470	(\$114,806)
Intergovernmental	36,744,761	36,146,680	34,149,327	(1,997,353)
Interest	142,111	139,798	132,073	(7,725)
Charges for Services	148	146	138	(8)
Tuition and Fees	5,259,673	5,174,064	4,888,161	(285,903)
Extracurricular Activities	2,184	2,149	2,030	(119)
Miscellaneous	310,934	305,873	288,971	(16,902)
<i>Total Revenues</i>	<u>50,441,546</u>	<u>49,090,986</u>	<u>46,668,170</u>	<u>(2,422,816)</u>
<b>Expenditures</b>				
Current:				
Instruction:				
Regular	10,867,583	10,660,516	9,960,358	700,158
Special	10,396,476	10,919,901	10,043,408	876,493
Vocational	1,276,987	1,287,664	1,201,151	86,513
Adult/Continuing	8,084	8,701	1,023	7,678
Student Intervention Services	9,258,920	8,917,717	8,495,762	421,955
Support Services:				
Pupil	2,429,412	2,468,626	2,320,067	148,559
Instructional Staff	789,261	782,672	707,350	75,322
Board of Education	84,488	92,934	71,545	21,389
Administration	4,252,862	4,143,290	3,839,738	303,552
Fiscal	1,357,515	2,000,567	1,157,073	843,494
Business	643,036	631,217	556,415	74,802
Operation and Maintenance of Plant	5,906,601	5,759,270	4,931,622	827,648
Pupil Transportation	1,587,564	1,600,620	1,461,913	138,707
Central	2,927,599	3,086,118	2,449,037	637,081
Extracurricular Activities	398,123	449,106	376,262	72,844
<i>Total Expenditures</i>	<u>52,184,511</u>	<u>52,808,919</u>	<u>47,572,724</u>	<u>5,236,195</u>
<i>Excess of Revenues Over (Under) Expenditures</i>	<u>(1,742,965)</u>	<u>(3,717,933)</u>	<u>(904,554)</u>	<u>2,813,379</u>
<b>Other Financing Sources (Uses)</b>				
Advances In	2,085,000	2,085,000	2,085,000	0
Advances Out	(1,043,500)	(368,500)	(360,682)	7,818
Transfers Out	(228,915)	(277,720)	(277,720)	0
<i>Total Other Financing Sources (Uses)</i>	<u>812,585</u>	<u>1,438,780</u>	<u>1,446,598</u>	<u>7,818</u>
<i>Net Change in Fund Balance</i>	(930,380)	(2,279,153)	542,044	2,821,197
<i>Fund Balance Beginning of Year</i>	9,576,037	9,576,037	9,576,037	0
Prior Year Encumbrances Appropriated	2,259,139	2,259,139	2,259,139	0
<i>Fund Balance End of Year</i>	<u>\$10,904,796</u>	<u>\$9,556,023</u>	<u>\$12,377,220</u>	<u>\$2,821,197</u>

See accompanying notes to the basic financial statements

**East Cleveland City School District**  
*Statement of Revenues, Expenditures and Changes*  
*in Fund Balance - Budget (Non-GAAP Basis) and Actual*  
*Title I Fund*  
*For the Fiscal Year Ended June 30, 2018*

	<u>Budgeted Amounts</u>			Variance with Final Budget Positive (Negative)
	<u>Original</u>	<u>Final</u>	<u>Actual</u>	
<b>Revenues</b>				
Intergovernmental	<u>\$1,110,639</u>	<u>\$4,612,035</u>	<u>\$3,617,380</u>	<u>(\$994,655)</u>
<b>Expenditures</b>				
Current:				
Instruction:				
Special	573,125	1,508,833	1,242,645	266,188
Support Services:				
Pupil	58,926	406,844	341,433	65,411
Instructional Staff	1,021,256	1,512,887	1,299,173	213,714
Administration	87,928	277,720	233,398	44,322
Fiscal	28,696	28,696	0	28,696
Operation and Maintenance of Plant	19	10,590	1,671	8,919
Pupil Transportation	15,461	44,516	25,917	18,599
Operation of Non-Instructional Services	99,787	184,469	107,517	76,952
<i>Total Expenditures</i>	<u>1,885,198</u>	<u>3,974,555</u>	<u>3,251,754</u>	<u>722,801</u>
<i>Excess of Revenues Over (Under) Expenditures</i>	<u>(774,559)</u>	<u>637,480</u>	<u>365,626</u>	<u>(271,854)</u>
<b>Other Financing Sources (Uses)</b>				
Advances In	133,246	133,246	133,246	0
Advances Out	<u>(156,069)</u>	<u>(1,456,069)</u>	<u>(1,300,000)</u>	<u>156,069</u>
<i>Total Other Financing Sources (Uses)</i>	<u>(22,823)</u>	<u>(1,322,823)</u>	<u>(1,166,754)</u>	<u>156,069</u>
<i>Net Change in Fund Balance</i>	<u>(797,382)</u>	<u>(685,343)</u>	<u>(801,128)</u>	<u>(115,785)</u>
<i>Fund Balance Beginning of Year</i>	238,186	238,186	238,186	0
Prior Year Encumbrances Appropriated	<u>559,196</u>	<u>559,196</u>	<u>559,196</u>	<u>0</u>
<i>Fund Balance (Deficit) End of Year</i>	<u><u>\$0</u></u>	<u><u>\$112,039</u></u>	<u><u>(\$3,746)</u></u>	<u><u>(\$115,785)</u></u>

See accompanying notes to the basic financial statements

**East Cleveland City School District**

*Statement of Fund Net Position*

*Internal Service Fund*

*June 30, 2018*

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	<u>Self Insurance</u>
<b>Assets</b>	
Cash and Cash Equivalents with Fiscal Agents	\$923,854
<b>Liabilities</b>	
Claims Payable	<u>433,735</u>
<b>Net Position</b>	
Unrestricted	<u><u>\$490,119</u></u>

See accompanying notes to the basic financial statements

**East Cleveland City School District**  
*Statement of Revenues,  
 Expenses and Changes in Fund Net Position  
 Internal Service Fund  
 For the Fiscal Year Ended June 30, 2018*

	Self Insurance
<b>Operating Revenues</b>	
Charges for Services	\$4,988,772
<b>Operating Expenses</b>	
Purchased Services	950,573
Claims	3,619,119
<i>Total Operating Expenses</i>	4,569,692
<i>Operating Income</i>	419,080
<b>Non-Operating Operating Revenues</b>	
Interest	1,652
<i>Change in Net Position</i>	420,732
<i>Net Position Beginning of Year</i>	69,387
<i>Net Position End of Year</i>	\$490,119

See accompanying notes to the basic financial statements

**East Cleveland City School District**  
*Statement of Cash Flows*  
*Internal Service Fund*  
For the Fiscal Year Ended June 30, 2018

	Self Insurance
<b>Increase (Decrease) in Cash and Cash Equivalents</b>	
<b>Cash Flows from Operating Activities</b>	
Cash Received from Interfund Services Provided	\$4,988,772
Cash Payments for Services	(950,573)
Cash Payments for Claims	(3,621,989)
<i>Net Cash Provided by Operating Activities</i>	416,210
<b>Cash Flows from Investing Activities</b>	
Interest on Investments	1,652
<i>Net Increase (Decrease) in Cash and Cash Equivalents</i>	417,862
<i>Cash and Cash Equivalents Beginning of Year</i>	505,992
<i>Cash and Cash Equivalents End of Year</i>	\$923,854
<b>Reconciliation of Operating Income (Loss) to Net Cash Provided by (Used for) Operating Activities</b>	
Operating Income (Loss)	\$419,080
Adjustments:	
<i>Increase (Decrease) in Liabilities:</i>	
Claims Payable	(2,870)
<i>Net Cash Provided by (Used for) Operating Activities</i>	\$416,210
See accompanying notes to the basic financial statements	

**East Cleveland City School District**  
*Statement of Fiduciary Assets and Liabilities*  
*Agency Funds*  
*June 30, 2018*

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	<u>Agency</u>
<b>Assets</b>	
Equity in Pooled Cash and Cash Equivalents	<u>\$137,127</u>
<b>Liabilities</b>	
Undistributed Monies	\$19,455
Due to Students	<u>117,672</u>
<i>Total Liabilities</i>	<u>\$137,127</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, 2018*

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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 610 school districts in the State of Ohio and one of 31 in Cuyahoga County, and provides education to 2,077 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, one middle school and one high school, staffed by 110 support staff personnel, 174 certified teaching personnel and 36 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 ensure 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 two insurance purchasing pools, a related organization and two jointly governed organizations. These organizations are the Ohio School Boards Association Workers' Compensation Group Rating Program, the Jefferson Health Plan, East Cleveland Public Library, Connect, and Ohio Schools' Council Association. These organizations are presented in Notes 15, 16, and 17 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 more significant of the School District's accounting policies are described as follows.

## East Cleveland City School District

*Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2018*

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### ***Basis of Presentation***

The School District's basic financial statements consist of government-wide statements, including a statement of net position 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 position 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 position 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 and deferred inflows of resources is reported as fund balance. The following are the School District's major governmental funds:

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



## East Cleveland City School District

### *Notes to the Basic Financial Statements For the Fiscal Year Ended June 30, 2018*

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

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

***Proprietary Funds*** Proprietary funds reporting focuses on the determination of operating income, changes in net position, financial position and cash flows. Proprietary funds are classified as enterprise or internal service; the School District has no enterprise funds.

***Internal Service Fund*** The internal service fund accounts for the financing of services provided by one department or agency to other departments or agencies of the School District on a cost reimbursement basis. The School District's internal service fund accounts for self insurance for medical claims of School District employees.

***Fiduciary Fund Type*** Fiduciary fund reporting focuses on net position and changes in net position. 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 deferred outflows of resources and all liabilities and deferred inflows of resources associated with the operation of the School District are included on the statement of net position. The statement of activities presents increases (i.e., revenues) and decreases (i.e., expenses) in total net position.

***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 deferred outflows of resources and current liabilities and deferred inflows of resources 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 outflows/inflows of resources, and in the presentation of expenses versus expenditures.

## East Cleveland City School District

### *Notes to the Basic Financial Statements For the Fiscal Year Ended June 30, 2018*

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**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 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 Outflows/Inflows of Resources** In addition to assets, the statements of financial position will sometimes report a separate section for deferred outflows of resources. Deferred outflows of resources, represents a consumption of net position that applies to a future period and will not be recognized as an outflow of resources (expense/expenditure) until then. For the School District, deferred outflows of resources are reported on the government-wide statement of net position for deferred charges on refunding, pension, and OPEB plans. A deferred charge on refunding results from the difference in the carrying value of refunded debt and its reacquisition price. This amount is deferred and amortized over the shorter of the life of the refunded or refunding debt. The deferred outflows of resources related to pension and OPEB plans are explained in Notes 22 and 23.

In addition to liabilities, the statements of financial position report a separate section for deferred inflows of resources. Deferred inflows of resources represent an acquisition of net position that applies to a future period and will not be recognized until that time. For the School District, deferred inflows of resources include property taxes, pension, OPEB plans and unavailable revenue. Property taxes represent amounts for which there is an enforceable legal claim as of June 30, 2018, but which were levied to finance fiscal year 2019 operations. These amounts have been recorded as a deferred inflow on both the government-wide statement of net position and governmental fund financial statements. Unavailable revenue is reported only on the governmental funds balance sheet, and represents receivables which will not be collected within the available period. For the School District, unavailable revenue includes delinquent property taxes and income taxes. These amounts are deferred and recognized as an inflow of resources in the period the amounts become available. The details of these unavailable revenues are identified on the Reconciliation of Total Governmental Fund Balances to Net Position of Governmental Activities fund on page 18. Deferred inflows of resources related to pension and OPEB plans are reported on the government-wide statement of net position. (See Notes 22 and 23)

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

## **East Cleveland City School District**

### *Notes to the Basic Financial Statements For the Fiscal Year Ended June 30, 2018*

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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.

#### ***Pensions/Other Postemployment Benefits (OPEB)***

For purposes of measuring the net pension/OPEB liability, deferred outflows of resources and deferred inflows of resources related to pensions/OPEB, and pension/OPEB expense, information about the fiduciary net position of the pension/OPEB plans and additions to/deductions from their fiduciary net position have been determined on the same basis as they are reported by the pension/OPEB plan. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. The pension/OPEB plans report investments at fair value.

#### ***Budgetary Data***

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

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

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

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

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

The School District has a segregated bank account for monies held for athletics. This account is reported as "cash in segregated accounts" on the financial statements.

The School District utilizes a financial institution to service self-insurance payments as they come due. The balances in these accounts are presented in the statements as "cash and cash equivalents with fiscal agents."

During fiscal year 2018, the School District's investments were limited to STAR Ohio and U.S. Treasury securities.

**East Cleveland City School District**  
*Notes to the Basic Financial Statements*  
*For the Fiscal Year Ended June 30, 2018*

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Except for nonparticipating investment contracts, investments are reported at fair value which is based on quoted market prices.

During Fiscal Year 2018, the School District invested in STAR Ohio. STAR Ohio (the State Treasury Asset Reserve of 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 has adopted Governmental Accounting Standards Board (GASB), Statement No. 79, "Certain External Investment Pools and Pool Participants." The School District measures their investment in STAR Ohio at the net asset value (NAV) per share provided by STAR Ohio. The NAV per share is calculated on an amortized cost basis that provides an NAV per share that approximates fair value.

For fiscal year 2018, there were no limitations or restrictions on any participant withdrawals due to redemption notice periods, liquidity fees, or redemption gates. However, twenty-four hours advance notice is appreciated for deposits and withdrawals of \$25 million or more. STAR Ohio reserves the right to limit the transactions to \$100 million per day, requiring the excess amount to be transacted the following business day(s), but only to the \$100 million limit. All accounts of the participant will be combined for these purposes.

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 2018 amounted to \$160,879, which includes \$41,170 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.

***Restricted Assets***

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

***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. Inventories consist of donated food, purchased food and school supplies held for resale, and materials and supplies held for consumption.

***Capital Assets***

All capital assets of the School District are classified as general capital assets. These assets generally result from expenditures in the governmental funds. They are reported in the governmental activities column of the government-wide statement of net position 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 acquisition 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, 2018*

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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 Premium***

On government-wide financial statement, bond premiums are deferred and amortized over the term of the bonds using the straight line 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. Under Ohio law, premiums on the original issuance of debt are to be deposited to the bond retirement fund to be used for debt retirement and are precluded from being applied to the project fund. Ohio law does allow premiums on refunding debt to be used as part of the payment to the bond escrow agent.

***Deferred Charge 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, using the straight line method and is presented as deferred outflows of resources on the statement of net position.

***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 position.

***Compensated Absences***

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

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

**East Cleveland City School District**  
*Notes to the Basic Financial Statements*  
*For the Fiscal Year Ended June 30, 2018*

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

All payables, accrued liabilities and long-term obligations are reported in the government-wide financial statements. In general, governmental fund payables and accrued liabilities that, once incurred, are paid in a timely manner and in full from current financial resources, are reported as obligations of the funds. However, claims and judgments, compensated absences 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. Net pension/OPEB liability should be recognized in the governmental funds to the extent that benefit payments are due and payable and the pension/OPEB plan's fiduciary net position is not sufficient for payment of those benefits.

***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 Position***

Net position represents the difference between all other elements in a statement of financial position. Net investment in capital assets 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 position is reported as restricted when there are limitations imposed on its use through external restrictions imposed by creditors, grantors or laws or regulations of other governments. Net position restricted for other purposes include resources restricted for teacher development and student services.

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

***Fund Balance***

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

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

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

***Committed*** The committed fund balance classification includes amounts that can be used only for the specific purposes imposed by the highest level formal action (resolution) of the School District Board of Education.

**East Cleveland City School District**

*Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2018*

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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 includes the remaining amount that is not restricted or committed. These assigned balances are established by the School District Board of Education. In the general fund, assigned amounts represent intended uses established by policies of the School District Board of Education or a School District official delegated that authority by resolution by State statute. State statute authorizes the Treasurer to assign fund balance for purchases on order provided such amounts have been lawfully appropriated. The School District's Board of Education assigned fund balance for public school support services.

**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.

**Note 3 – Change in Accounting Principle and Restatement of Fund Balance and Net Position**

***Change in Accounting Principle***

For fiscal year 2018, the School District implemented Governmental Accounting Standards Board (GASB) Statement No. 85, *Omnibus 2017*, Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other than Pensions*, and related guidance from (GASB) Implementation Guide No. 2017-3, *Accounting and Financial Reporting for Postemployment Benefits other Than Pensions (and Certain Issues Related to OPEB Plan Reporting)*.

For fiscal year 2018, the School District also implemented the Governmental Accounting Standards Board's (GASB) *Implementation Guide No. 2017-1*. These changes were incorporated in the School District's fiscal year 2018 financial statements; however, there was no effect on beginning net position/fund balance.

GASB 85 addresses a variety of topics including issues related to blending component units, goodwill, fair value measurement and application, and postemployment benefits (pension and other postemployment benefits (OPEB)). These changes were incorporated in the School District's fiscal year 2018 financial statements; however, there was no effect on beginning net position/fund balance.

**East Cleveland City School District**  
*Notes to the Basic Financial Statements*  
For the Fiscal Year Ended June 30, 2018

**Restatement of Fund Balance**

During fiscal year 2018, it was determined that the District’s fund balance needed to be restated for cash and interfund balances. These restatements had the following effect on fund balance as reported June 30, 2017:

	<u>General</u>	<u>Title I</u>	<u>Other Governmental</u>	<u>Total Governmental</u>
Fund Balance June 30, 2017	\$10,851,503	(\$308,976)	\$4,222,775	\$14,765,302
Adjustments:				
Cash and Cash Equivalents	(645,715)	797,382	(151,667)	\$0
Interfund Receivable	929,478	(249,999)	(610,238)	\$69,241
Interfund Payable	860,237	(547,383)	(382,095)	(\$69,241)
Restated Fund Balance June 30, 2017	<u>\$11,995,503</u>	<u>(\$308,976)</u>	<u>\$3,078,775</u>	<u>\$14,765,302</u>

**Restatement of Net Position**

During fiscal year 2018, it was determined that the District’s net position needed to be restated for cash with fiscal agents, net pension liability and claims payable.

GASB 75 established standards for measuring and recognizing postemployment benefit liabilities, deferred outflows of resources, deferred inflows of resources and expense/expenditure. The implementation of this pronouncement, in addition to the restatements listed above, had the following effect on net position as reported June 30, 2017:

Net Position June 30, 2017	\$14,493,081
Adjustments:	
Cash with Fiscal Agents	505,992
Net Pension Liability	1,483,425
Claims Payable	(436,605)
Net OPEB Liability	(14,312,240)
Deferred Outflow - Payments Subsequent to Measurement Date	<u>67,073</u>
Restated Net Position June 30, 2017	<u>\$1,800,726</u>

Other than employer contributions subsequent to the measurement date, the School District made no restatement for deferred inflows/outflows of resources as the information needed to generate these restatements was not available.

**Note 4 – Accountability and Compliance**

**Accountability**

At June 30, 2018, the following funds had deficit fund balances:

<u>Fund</u>	<u>Amount</u>
<b>Other Governmental Funds</b>	
Race to the Top	\$545,998
Alternative Schools	251,733
Title VIR	135,936
Classroom Facilities Maintenance	35,124
Public School Preschool	18,800
Preschool Handicapped	10,000



**East Cleveland City School District**

*Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2018*

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.

**Compliance**

Ohio Revised Code Section 5705.41(B) prohibits a subdivision from making an expenditure unless it has been appropriated as provided in Chapter 5705 of the Revised Code.

As of June 30, 2018, the vocational education special revenue fund had expenditures plus encumbrances of \$155,486 exceeding appropriations plus prior year encumbrances of \$110,604 by \$44,882.

Ohio Revised Code Section 5705.10(I) provides that money paid into a fund must be used only for the purposes for which such fund has been established.

The following funds in total had negative cash fund balances as of June 30, 2018:

Fund	Amount
<b>Other Governmental Funds</b>	
Title VI-B	\$289,878
Title VIR	224,882
Race to the Top	209,999
Alternative Schools	66,347
Vocational Education	37,452
Classroom Facilities Maintenance	20,286
Preschool Handicapped	10,000

A fund with a negative cash fund balance indicates that money from another fund was used to pay the expenditures of that fund.

As of June 30, 2018, the following School District funds had final appropriations in excess of estimated resources plus carryover balances, contrary to Section 5705.39, Ohio Revised Code:

Fund	Estimated Resources Plus Available Balances	Appropriations	Excess
<b>Other Governmental Funds</b>			
Classroom Facilities Maintenance	\$147,782	\$168,070	(\$20,288)
Alternative Schools	28,153	94,500	(66,347)
Title VI-B	861,050	1,157,860	(296,810)
Vocational Education	40,852	105,852	(65,000)
Preschool Handicapped	8,477	18,476	(9,999)
Title VIR	73,416	289,432	(216,016)

**East Cleveland City School District**  
*Notes to the Basic Financial Statements*  
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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 and major special revenue 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. Advances in and advances out are operating transactions (budget basis) as opposed to balance sheet transactions (GAAP basis).
4. Encumbrances are treated as expenditures (budget basis) rather than restricted, committed or assigned fund balance (GAAP basis).
5. Budgetary revenues and expenditures of the public school support fund are reclassified to the general fund for GAAP reporting.
6. Unrecorded cash is not reported by the School District on the operating statements (budget), but is reported on the GAAP basis operating statements.
7. Investments are reported at fair value (GAAP) rather than cost (budget basis).

The following table summarizes the adjustments necessary to reconcile the GAAP basis statement to the budgetary basis statement for the general fund and title I special revenue fund.

	General	Title I
GAAP Basis	\$178,623	\$720,976
Net Adjustment for Revenue Accruals	(242,102)	(232,076)
Advances In	2,085,000	133,246
Beginning Fair Value Adjustment for Investments	(63,064)	0
Ending Fair Value Adjustment for Investments	33,971	0
Beginning Unrecorded Cash	(73,130)	0
Net Adjustment for Expenditure Accruals	344,077	17,379
Advances Out	(360,682)	(1,300,000)
Perspective Difference:		
Public School Support	7,379	0
Encumbrances	(1,368,028)	(140,653)
Budget Basis	\$542,044	(\$801,128)

**East Cleveland City School District**  
*Notes to the Basic Financial Statements*  
*For the Fiscal Year Ended June 30, 2018*

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**Note 6 – Deposits and Investments**

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

Active deposits 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, and Government National Mortgage Association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;
3. Written repurchase agreements in the securities listed above provided the market value of the securities subject to the repurchase agreement must exceed the principal value of the agreement by at least two percent and be marked daily, and the term of the agreement must not exceed thirty days;
4. Bonds and other obligations of the State of Ohio, and with certain limitations bonds and other obligations of political subdivisions 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 (1) or (2) and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions;
7. The State Treasurer's investment pool (STAR Ohio); and
8. Certain bankers' acceptances and commercial paper for a period not to exceed one hundred eighty days in an amount not to exceed 40 percent of the interim monies available for investment at any one time if training requirements have been met.

**East Cleveland City School District**  
*Notes to the Basic Financial Statements*  
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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. An investment must mature within five years from the date of purchase, unless matched to a specific obligation or debt of the School District, and must be purchased with the expectation that it will be held to maturity.

Investments may only be made through specified dealers and institutions. Payment for investments may be made only upon delivery of the securities representing the investments to the treasurer or, if the securities are not represented by a certificate, upon receipt of confirmation of transfer from the custodian.

**Deposits**

**Custodial credit risk** for deposits is the risk that in the event of a 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 June 30, 2018, \$3,938,064 of the School District's total bank balance of \$9,528,838 was exposed to custodial credit risk because those deposits were uninsured and uncollateralized. One of the School District's financial institution participates in the Ohio Pooled Collateral System (OPCS) and was approved for a reduced collateral floor of 50 percent resulting in the uninsured and uncollateralized balance.

The School District has no deposit policy for custodial risk beyond the requirements of State statute. Ohio law requires that deposits either be insured or be protected by:

Eligible securities pledged to the School District and deposited with a qualified trustee by the financial institution as security for repayment whose market value at all times shall be at least 105 percent of the deposits being secured; or

Participation in the Ohio Pooled Collateral System (OPCS), a collateral pool of eligible securities deposited with a qualified trustee and pledged to the Treasurer of State to secure the repayment of all public monies deposited in the financial institution. OPCS requires the total market value of the securities pledged to be 102 percent of the deposits being secured or a rate set by the Treasurer of State.

**Investments**

Investments are reported at fair value. As of June 30, 2018, the School District had the following investments:

Measurement/Investment	Measurement Amount	Maturity	Standard and Poor's Rating	Percentage of Total Investments
Net Asset Value (NAV) Per Share:				
STAR Ohio	\$450,191	48.9 Days	AAAm	N/A
Fair Value - Level Two Inputs:				
US Treasury Securities	<u>8,836,060</u>	Less than four years	AAA	95.15%
Total Investments	<u><u>\$9,286,251</u></u>			

The School District categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets. Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs. The above chart identifies the School District's recurring fair value measurements as of June 30, 2018. All of the School District's investments measured at fair value are valued using methodologies that incorporate market inputs

**East Cleveland City School District**  
*Notes to the Basic Financial Statements*  
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such as benchmark yields, reported trades, broker/dealer quotes, issuer spreads, two-sided markets, benchmark securities, bids, offers and reference data including market research publications. Market indicators and industry and economic events are also monitored, which could require the need to acquire further market data. (Level 2 inputs).

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

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

**Note 7 – Receivables**

Receivables at June 30, 2018, consisted of taxes, accounts (miscellaneous), intergovernmental and grants. All receivables are considered collectible in full due to the ability to foreclose for the nonpayment of taxes, the stable condition of State programs, and the current year guarantee of federal funds. All receivables except for delinquent property taxes are expected to be collected within one year. Property taxes, although ultimately collectible, include some portion of delinquencies that will not be collected within one year.

A summary of principal items of intergovernmental receivables follows:

Governmental Activities	Amount
Title I	\$569,479
Title I School Improvement	425,000
Title VI-B	350,407
Department of Education	306,137
Bureau of Workers' Compensation	165,846
Early Childhood Education	127,395
Carl Perkins	41,460
Title II-A	30,959
Title IV-A	17,092
ROTC	2,416
Parent Mentor Project	1,605
Students with Disabilities	1,483
Total	\$2,039,279

**Note 8 – Property Taxes**

**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.

## East Cleveland City School District

### *Notes to the Basic Financial Statements*

*For the Fiscal Year Ended June 30, 2018*

Property taxes include amounts levied against all real and public utility property located in the School District. Real property tax revenue received in calendar year 2018 represents collections of calendar year 2017 taxes. Real property taxes received in calendar year 2018 were levied after April 1, 2017, on the assessed value listed as of January 1, 2017, 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 2018 represents collections of calendar year 2017 taxes. Public utility real and tangible personal property taxes received in calendar year 2018 became a lien December 31, 2016, were levied after April 1, 2017 and are collected in calendar year 2018 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, 2018, are available to finance fiscal year 2019 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 and public utility property taxes which are measurable as of June 30, 2017 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 inflows of resources – property taxes.

The amount available as an advance at June 30, 2018, was \$1,338,911 in the general fund, \$162,663 in the general obligation bond retirement debt service fund and \$13,076 in the classroom facilities maintenance capital projects fund. The amount available as an advance at June 30, 2017, was \$1,205,371 in the general fund, \$147,019 in the general obligation bond retirement debt service fund, and \$11,818 in the classroom facilities maintenance capital projects fund.

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

The assessed values upon which the fiscal year 2018 taxes were collected are:

	2017 Second Half Collections		2018 First Half Collections	
	Amount	Percent	Amount	Percent
Real Estate				
Residential/Agricultural	\$106,187,070	68.93 %	\$102,937,930	67.45 %
Other Real Estate	35,119,410	22.80	36,306,790	23.79
Tangible Personal Property				
Public Utility	12,741,050	8.27	13,374,510	8.76
<b>Total</b>	<b>\$154,047,530</b>	<b>100.00 %</b>	<b>\$152,619,230</b>	<b>100.00 %</b>
Tax rate per \$1,000 of assessed valuation		\$95.10		\$95.10

**East Cleveland City School District**  
*Notes to the Basic Financial Statements*  
*For the Fiscal Year Ended June 30, 2018*

**Tax Abatements**

The School District property taxes were reduced by \$44,450 under various community reinvestment area agreements entered into by the City of East Cleveland.

**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 as follows:

Fund Balances	General	Title I	Other Governmental Funds	Total
<b><i>Nonspendable:</i></b>				
Unclaimed Monies	\$85,020	\$0	\$0	\$85,020
Inventory	0	0	2,707	2,707
Prepays	111,115	0	2,582	113,697
<b><i>Total Nonspendable</i></b>	<b>196,135</b>	<b>0</b>	<b>5,289</b>	<b>201,424</b>
<b><i>Restricted for:</i></b>				
Food Service Operations	0	0	1,151,013	1,151,013
College Scholarships	0	0	39,777	39,777
Athletics and Music	0	0	180,790	180,790
Adult Education	0	0	316	316
Technology Improvements	0	0	18,379	18,379
Educational Services	0	412,000	115,364	527,364
Student Services	0	0	22,418	22,418
Debt Service Payments	0	0	2,286,804	2,286,804
Capital Improvements	0	0	542,316	542,316
<b><i>Total Restricted</i></b>	<b>0</b>	<b>412,000</b>	<b>4,357,177</b>	<b>4,769,177</b>
<b><i>Assigned to:</i></b>				
Public School Support Services	45,172	0	0	45,172
Fiscal Year 2019 Appropriations	6,153,381	0	0	6,153,381
Purchases on Order:				
Instruction	332,570	0	0	332,570
Support Services	720,106	0	0	720,106
<b><i>Total Assigned</i></b>	<b>7,251,229</b>	<b>0</b>	<b>0</b>	<b>7,251,229</b>
<b><i>Unassigned (Deficit)</i></b>	<b>4,726,762</b>	<b>0</b>	<b>(997,591)</b>	<b>3,729,171</b>
<b>Total</b>	<b>\$12,174,126</b>	<b>\$412,000</b>	<b>\$3,364,875</b>	<b>\$15,951,001</b>

**East Cleveland City School District**  
*Notes to the Basic Financial Statements*  
*For the Fiscal Year Ended June 30, 2018*

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**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. 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, 2018.

***School Foundation***

School District foundation funding is based on the annualized full-time equivalent (FTE) enrollment of each student. The Ohio Department of Education (ODE) is legislatively required to adjust/reconcile funding as enrollment information is updated by schools throughout the State, which can extend past the fiscal year end. As of the date of this report, additional ODE adjustments for fiscal year 2018 are not finalized. As a result, the impact of future FTE adjustments on the fiscal year 2018 financial statements is not determinable, at this time. Management believes this may result in either an additional receivable to, or a liability of, the School District.

***Litigation***

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

**Note 11 – 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 2018, the School District contracted with Liberty Mutual Insurance Company for property insurance of \$169,434,455, fleet insurance of \$1,000,000 and liability coverage of \$1,000,000 per occurrence with no deductible.

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

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

***Workers' Compensation***

For fiscal year 2018, the School District participated in the Ohio School Boards' Association Workers' Compensation Group Rating Program (GRP), an insurance purchasing pool (Note 15). 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 Comp Management Company 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, 2018*

***Employee Benefits***

The School District offers medical, surgical, and dental insurance to employees through a self-insurance program. The School District's monthly premiums are paid to the fiscal agent who in turn pays the claims on the School District's behalf. The claims liability of \$433,735 reported in the internal service funds at June 30, 2018, is estimated by and based on the requirements of the Governmental Accounting Standards Board Statement No. 30 which required that a liability for unpaid claims costs, including estimates of costs relating to incurred but not reported claims, be reported. The estimate was not affected by incremental claim adjustment expenses and does not include other allocated or unallocated claim adjustment expenses.

Changes in the funds' claims liability amounts for 2017 and 2018 were:

	Balance at Beginning of Year	Current Year Claims	Claim Payments	Balance at End of Year
2017	\$0	\$3,837,976	(\$3,401,371)	\$436,605
2018	436,605	3,619,119	(3,621,989)	433,735

**Note 12 – Interfund Transactions**

***Balances***

Interfund balances at June 30, 2018 consisted of the following:

Interfund Payable	Interfund Receivable			Total
	General	Title I	Other Governmental Funds	
General	\$0	\$312,138	\$232,306	\$544,444
Title I	113,092	0	0	113,092
Other Governmental Funds	1,485,811	0	288,998	1,774,809
Total	\$1,598,903	\$312,138	\$521,304	\$2,432,345

The interfund receivable and payables are due to the general fund covering deficit cash balances in these funds and moving unrestricted balances to support programs accounted for in other funds. The interfund payable in the general fund is a result of various funds repaying more than required in the previous year.

***Transfers***

During fiscal year 2018, the general fund transferred \$277,720 to other governmental funds to support programs and projects accounted for in other funds.

**East Cleveland City School District**  
*Notes to the Basic Financial Statements*  
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**Note 13 – Capital Assets**

Capital asset activity for the fiscal year ended June 30, 2018, was as follows:

	Balance 6/30/17	Additions	Deletions	Balance 6/30/18
<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	39,983	0	2,473,800
Buildings and Improvements	97,098,625	0	0	97,098,625
Furniture and Equipment	7,210,899	153,521	(7,965)	7,356,455
Vehicles	541,048	0	0	541,048
Textbooks	1,853,856	0	0	1,853,856
<i>Total Capital Assets, being Depreciated</i>	<u>109,138,245</u>	<u>193,504</u>	<u>(7,965)</u>	<u>109,323,784</u>
Less Accumulated Depreciation:				
Land Improvements	(1,351,476)	(118,384)	0	(1,469,860)
Buildings and Improvements	(33,430,799)	(2,332,467)	0	(35,763,266)
Furniture and Equipment	(6,199,934)	(174,442)	3,186	(6,371,190)
Vehicles	(492,329)	(10,562)	0	(502,891)
Textbooks	(1,853,856)	0	0	(1,853,856)
<i>Total Accumulated Depreciation</i>	<u>(43,328,394)</u>	<u>(2,635,855) *</u>	<u>3,186</u>	<u>(45,961,063)</u>
<i>Total Capital Assets, being Depreciated, Net</i>	<u>65,809,851</u>	<u>(2,442,351)</u>	<u>(4,779)</u>	<u>63,362,721</u>
<i>Governmental Activities Capital Assets, Net</i>	<u>\$68,199,751</u>	<u>(\$2,442,351)</u>	<u>(\$4,779)</u>	<u>\$65,752,621</u>

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

Instruction:	
Regular	\$2,528,422
Vocational	9,242
Support Services:	
Instructional Staff	14,931
Administration	4,020
Business	1,322
Operation and Maintenance of Plant	6,824
Pupil Transportation	10,634
Central	6,472
Operation of Non-Instructional Services	45,220
Extracurricular Activities	8,768
<i>Total Depreciation Expense</i>	<u>\$2,635,855</u>

**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.

## **East Cleveland City School District**

*Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2018*

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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 – Public Entity Risk Pool**

#### ***Insurance Purchasing Pools***

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

***Jefferson Health Plan*** The School District participates in the Jefferson Health Plan (formally known as OMERESA Health Benefits Consortium), an insurance purchasing pool. The plan's business and affairs are conducted by a Board of Trustees consisting of the current Superintendent of each of the school districts and county boards of education in the Plan. The Executive Director, or his designee, serves as coordinator of the program. Each month, the participating school districts pay a premium to the Plan to cover the costs of administering the program.

### **Note 16 – Related Organization**

The East Cleveland Public Library is a distinct political subdivision of the State of Ohio created under Chapter 3375 of the Ohio Revised Code. The Library is governed by a Board of Trustees appointed by the East Cleveland City School District Board of Education. The Board of Trustees possesses its own contracting and budgeting authority, hires and fires personnel and does not depend on the School District for operational subsidies. Although the School District does serve as the taxing authority and may issue tax related debt on behalf of the Library, its role is limited to a ministerial function. The determination to request approval of a tax, the rate and the purpose are discretionary decisions made solely by the Board of Trustees. Financial information can be obtained from the East Cleveland Public Library, Mr. Ross Cockfield, Fiscal Officer, at 14101 Euclid Avenue, East Cleveland, Ohio 44112.

**East Cleveland City School District**  
*Notes to the Basic Financial Statements*  
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**Note 17 – Jointly Governed Organizations**

**Connect** Connect is a jointly governed organization comprised of twenty-four member school districts, three educational service centers and the Ohio Schools Council. The jointly governed organization was formed for the purpose of providing support and leadership which enables organizations to achieve their objectives through innovative and cost effective shared technology solutions. Connect is governed by a four member Board of Directors consisting of the Superintendent of the Educational Service Center of Cuyahoga County, the Superintendent of the Educational Service Center of Lorain County, the Superintendent of the Educational Service Center of Medina County and the Executive Director of the Ohio Schools Council. The degree of control exercised by any participating school district is limited to its representation of the Governing Board. The Board exercises total control over the operation of the organization including budgeting, appropriating, contracting and designating management. Each participating entity's contribution to Connect is dependent upon student enrollment and/or software packages and services utilized. Financial information for Connect can be obtained by contacting the Treasurer at the Cuyahoga County Educational Service Center, which serves as fiscal agent. During fiscal year 2018, the School District contributed \$193,126 to Connect. Financial information can be obtained by contacting the Treasurer of the fiscal agent at 6393 Oak Tree Boulevard, Independence, Ohio 44131.

**Ohio Schools' Council Association** The Ohio Schools Council Association (Council) is a jointly governed organization among 231 members. 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 Council's Board exercises total control over the operations of the organization including budgeting, appropriating, contracting and designating management. Each participant's degree of control is limited to its representation on the Board. The Assembly elects five of the Council's Board members and the remaining four are representatives of the Greater Cleveland School Superintendents' Association. The Council operates under a nine-member Board of Directors (the Board). The Board is the policy making authority of the Council. The Board meets monthly September to June. The Board appoints an Executive Director who is responsible for receiving and disbursing funds, investing available funds, preparing financial reports for the Board and Assembly and carrying out such other responsibilities as designated by the Board. In fiscal year 2018, the School District paid \$93,479 to the Council. Financial information can be obtained by contacting William Zelei, the Executive Director of the Ohio Schools Council at 6393 Oak Tree Boulevard, Suite 377, 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. Compass Energy served as the supplier and program manager from April 1, 2013, through March 31, 2016; Constellation New Energy (Formerly known as Compass Energy) selected as of April 1, 2016. There are currently 157 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.

The School District also participates in the Council's current electric purchase program. The Power 4 Schools Program provides a fixed price rate for electricity supplied by First Energy Solutions of \$0.0518 per kwh for the generation of electricity. There are currently 251 participants in the program including the East Cleveland City School District. School districts are not charged a fee by OSC to participate in this program. School districts pay the utility (Ohio Edison, Toledo Edison or Cleveland Electric Illuminating Co.) directly and receive a discount for the fixed price of generation.

**East Cleveland City School District**  
*Notes to the Basic Financial Statements*  
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**Note 18 – Long Term Obligations**

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

Debt Issue	Original Issue Date	Original Issue Amount	Interest Rate	Date of Maturity
<i>General Obligation Bonds:</i>				
School Improvement Refunding Bonds	2007	\$5,645,000	4.00-5.50%	December 1, 2020

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

	Principal Outstanding 6/30/17	Additions	(Reductions)	Principal Outstanding 6/30/18	Amount Due in One Year
<b>Governmental Activities:</b>					
<i>General Obligations Bonds:</i>					
School Improvement Refunding - 2007:					
Serial Bonds	\$2,795,000	\$0	(\$645,000)	\$2,150,000	\$680,000
Unamortized Premium	108,323	0	(31,704)	76,619	0
<i>Total General Obligation Bonds</i>	<u>2,903,323</u>	<u>0</u>	<u>(676,704)</u>	<u>2,226,619</u>	<u>680,000</u>
<i>Other Long-Term Obligations:</i>					
Net Pension Liability:					
STRS	56,634,237	0	(18,089,665)	38,544,572	0
SERS	14,729,613	0	(3,524,774)	11,204,839	0
Total Net Pension Liability	<u>71,363,850</u>	<u>0</u>	<u>(21,614,439)</u>	<u>49,749,411</u>	<u>0</u>
Net OPEB Liability:					
STRS	8,660,444	0	(2,329,762)	6,330,682	0
SERS	5,651,796	0	(734,719)	4,917,077	0
Total Net OPEB Liability	<u>14,312,240</u>	<u>0</u>	<u>(3,064,481)</u>	<u>11,247,759</u>	<u>0</u>
Capital Lease	630,188	0	(198,078)	432,110	182,265
Compensated Absences	4,836,187	992,936	(1,350,764)	4,478,359	1,045,544
<i>Total Other Long-Term Obligations</i>	<u>91,142,465</u>	<u>992,936</u>	<u>(26,227,762)</u>	<u>65,907,639</u>	<u>1,227,809</u>
<i>Total Governmental Activities</i>	<u>\$94,045,788</u>	<u>\$992,936</u>	<u>(\$26,904,466)</u>	<u>\$68,134,258</u>	<u>\$1,907,809</u>

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

The refunding bonds were issued to defease the 1999 school improvement general obligation term bonds by placing the proceeds of the new bonds in an irrevocable trust to provide for all future debt service payments. Accordingly, the trust account assets and the liability for the defeased bonds are not included in the School District’s financial statements. School improvement refunding bonds will be paid from the bond retirement fund.

**East Cleveland City School District**  
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The overall debt margin of the School District as of June 30, 2018, was \$13,872,535 with an unvoted debt margin of \$152,619. Principal and interest requirements to retire general obligation bonds outstanding at June 30, 2018, are as follows:

	General Obligation Bonds	
	Principal	Interest
2019	\$680,000	\$99,550
2020	715,000	61,187
2021	755,000	20,762
Total	\$2,150,000	\$181,499

The general obligation bonds will be paid from property taxes reported within the bond retirement debt service fund. There is no repayment schedule for the net pension liability or net OPEB liability. However, employer pension contributions are made from the following funds: general, food service, other local grants, public school preschool, title VI-B, title I school improvement, title I and class size reduction grant special revenue funds. For additional information related to the net pension liability and net OPEB see Notes 22 and 23. Payments related to the capital lease are paid from the general fund. Compensated absences will be paid from the general, other local grants, food service, public school preschool, title VI-B, title I, and class size reduction grant special revenue funds.

**Note 19 – Leases**

***Capital Leases***

In fiscal year 2015, the School District entered into a capitalized lease obligation for the purchase of copiers. The lease meets the criteria for capital leases and has been recorded on the government-wide statements. The original amounts capitalized for the capital leases and their book values as of June 30, 2018 are as follows:

	Amounts
Assets:	
Equipment	\$976,834
Less: Accumulated Depreciation	(274,638)
Current Book Value	\$702,196

The following is a schedule of the future minimum leases payments required under the capital lease and the present value of the minimum lease payments as of June 30, 2018.

	Amounts
2019	\$196,068
2020	172,284
2021	172,284
Total Minimum Lease Payments	540,636
Less: Amount Representing Interest	(108,526)
Present Value of Minimum Lease Payments	\$432,110

**East Cleveland City School District**  
*Notes to the Basic Financial Statements*  
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***Operating Leases***

On October 1 2017, the School District entered into an operating lease with Mercantile Street Real Estate, LLC, for the purpose of leasing a bus garage and warehouse to house the School District’s buses and maintenance equipment. This lease is renewed semi-annually. The School District pays \$4,000 per month. For fiscal year 2018, the School District paid rental costs of \$36,000. The School District must provide the lessor written notice at least 180 days prior to termination of the lease.

**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.

	<u>Capital Improvement</u>
Set-aside Balances as of June 30, 2017	(\$10,025,822)
Current Year Set-aside Requirement	377,456
Levy Proceeds Offsets	68,624
Qualifying Disbursements	<u>(461,272)</u>
Totals	<u>(\$10,041,014)</u>
Set-aside Balance Carried Forward to Future Fiscal Years	<u>(\$10,041,014)</u>
Set-aside Balances as of June 30, 2018	<u><u>\$0</u></u>

**Note 21 – 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	\$1,368,028
Title I	140,653
Other Governmental Funds	<u>360,537</u>
Total	<u><u>\$1,869,218</u></u>

**Note 22 - Defined Benefit Pension Plans**

The Statewide retirement systems provide both pension benefits and other postemployment benefits (OPEB).

**East Cleveland City School District**  
*Notes to the Basic Financial Statements*  
*For the Fiscal Year Ended June 30, 2018*

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***Net Pension Liability/Net OPEB Liability***

The net pension liability and the net OPEB liability reported on the statement of net position represent liabilities to employees for pensions and OPEB, respectively. Pensions/OPEB are a component of exchange transactions—between an employer and its employees—of salaries and benefits for employee services. Pensions/OPEB are provided to an employee—on a deferred-payment basis—as part of the total compensation package offered by an employer for employee services each financial period. The obligation to sacrifice resources for pensions is a present obligation because it was created as a result of employment exchanges that already have occurred.

The net pension/OPEB liability represent the School District’s proportionate share of each pension/OPEB plan’s collective actuarial present value of projected benefit payments attributable to past periods of service, net of each pension/OPEB plan’s fiduciary net position. The net pension/OPEB liability calculation is dependent on critical long-term variables, including estimated average life expectancies, earnings on investments, cost of living adjustments and others. While these estimates use the best information available, unknowable future events require adjusting these estimates annually.

Ohio Revised Code limits the School District’s obligation for this liability to annually required payments. The School District cannot control benefit terms or the manner in which pensions are financed; however, the School District does receive the benefit of employees’ services in exchange for compensation including pension and OPEB.

GASB 68/75 assumes the liability is solely the obligation of the employer, because (1) they benefit from employee services; and (2) State statute requires funding to come from these employers. All pension contributions to date have come solely from these employers (which also includes pension costs paid in the form of withholdings from employees). The retirement systems may allocate a portion of the employer contributions to provide for these OPEB benefits. In addition, health care plan enrollees pay a portion of the health care costs in the form of a monthly premium. State statute requires the retirement systems to amortize unfunded pension liabilities within 30 years. If the pension amortization period exceeds 30 years, each retirement system’s board must propose corrective action to the State legislature. Any resulting legislative change to benefits or funding could significantly affect the net pension/OPEB liability. Resulting adjustments to the net pension/OPEB liability would be effective when the changes are legally enforceable. The Ohio Revised Code permits, but does not require the retirement systems to provide healthcare to eligible benefit recipients.

The proportionate share of each plan’s unfunded benefits is presented as a long-term *net pension/OPEB liability* on the accrual basis of accounting. Any liability for the contractually-required pension/OPEB contribution outstanding at the end of the year is included in *intergovernmental payable* on both the accrual and modified accrual bases of accounting. The remainder of this note includes the required pension disclosures. See Note 23 for the required OPEB disclosures.

***Plan Description - School Employees Retirement System (SERS)***

Plan Description – School District non-teaching employees participate in SERS, a cost-sharing multiple-employer defined benefit pension plan administered by SERS. 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, required supplementary information and detailed information about SERS’ fiduciary net position. That report can be obtained by visiting the SERS website at [www.ohsers.org](http://www.ohsers.org) under Employers/Audit Resources.



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Age and service requirements for retirement are as follows:

	Eligible to Retire on or before August 1, 2017 *	Eligible to Retire on or after August 1, 2017
Full Benefits	Any age with 30 years of service credit	Age 67 with 10 years of service credit; or Age 57 with 30 years of service credit
Actuarially Reduced Benefits	Age 60 with 5 years of service credit Age 55 with 25 years of service credit	Age 62 with 10 years of service credit; or Age 60 with 25 years of service credit

\* Members with 25 years of service credit as of August 1, 2017, will be included in this plan.

Annual retirement benefits are calculated based on final average salary multiplied by a percentage that varies based on years of service; 2.2 percent for the first thirty years of service and 2.5 percent for years of service credit over 30. Final average salary is the average of the highest three years of salary.

One year after an effective benefit date, a benefit recipient is entitled to a three percent cost-of-living adjustment (COLA). This same COLA is added each year to the base benefit amount on the anniversary date of the benefit.

Funding Policy – Plan members are required to contribute 10 percent of their annual covered salary and the School District is required to contribute 14 percent of annual covered payroll. The contribution requirements of plan members and employers are established and may be amended by the SERS’ Retirement Board up to statutory maximum amounts of 10 percent for plan members and 14 percent for employers. The Retirement Board, acting with the advice of the actuary, allocates the employer contribution rate among four of the System’s funds (Pension Trust Fund, Death Benefit Fund, Medicare B Fund, and Health Care Fund). For the fiscal year ended June 30, 2018, the allocation to pension, death benefits, and Medicare B was 13.5 percent. The remaining .5 percent was allocated to the Health Care Fund.

The School District’s contractually required contribution to SERS was \$810,032 for fiscal year 2018. Of this amount \$23,083 is reported as an intergovernmental payable.

***Plan Description - State Teachers Retirement System (STRS)***

Plan Description – School District licensed teachers and other faculty members participate in STRS Ohio, a cost-sharing multiple employer public employee system administered by STRS. STRS provides retirement and disability benefits to members and death and survivor benefits to beneficiaries. STRS issues a stand-alone financial report that includes financial statements, required supplementary information, and detailed information about STRS’ fiduciary net position. That report can be obtained by writing to STRS, 275 E. Broad St., Columbus, OH 43215-3771, by calling (888) 227-7877, or by visiting the STRS 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. Benefits are established by Ohio Revised Code Chapter 3307.

The DB plan offers an annual retirement allowance based on final average salary multiplied by a percentage that varies based on years of service. Effective August 1, 2015, the calculation is 2.2 percent of final average salary for the five highest years of earnings multiplied by all years of service. Effective July 1, 2017, the cost-of-living adjustment was reduced to zero. Members are eligible to retire at age 60 with five years of qualifying service credit, or age 55 with 26 years of service, or 31 years of service regardless of age. Eligibility changes will be phased in until August 1, 2026, when retirement eligibility for unreduced benefits will be five years of service credit and age 65, or 35 years of service credit and at least age 60.

## East Cleveland City School District

### *Notes to the Basic Financial Statements For the Fiscal Year Ended June 30, 2018*

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The DC Plan allows members to place all their member contributions and 9.5 percent of the 14 percent employer contributions into an investment account. Investment allocation decisions are determined by the member. The remaining 4.5 percent of the 14 percent employer rate is allocated to the defined benefit unfunded liability. 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, 12 percent of the 14 percent member rate goes to the DC Plan and the remaining 2 percent goes to the DB Plan. Member contributions to the DC Plan are allocated among investment choices by the member, and contributions to the DB Plan from the employer and the member are used to fund the defined benefit payment at a reduced level from the regular DB Plan. The defined benefit portion of the Combined Plan payment is payable to a member on or after age 60 with five years of service. The defined contribution portion of the account may be taken as a lump sum payment or converted to a lifetime monthly annuity after termination of employment at age 50 or later.

New members who choose the DC plan or Combined Plan will have another opportunity to reselect a permanent plan during their fifth year of membership. Members may remain in the same plan or transfer to another STRS plan. The optional annuitization of a member's defined contribution account or the defined contribution portion of a member's Combined Plan account to a lifetime benefit results in STRS bearing the risk of investment gain or loss on the account. STRS has therefore included all three plan options as one defined benefit plan for GASB 68 reporting purposes.

A DB or Combined Plan member with five or more years of credited service who is determined to be disabled may qualify for a disability benefit. Eligible survivors of members who die before service retirement may qualify for monthly benefits. New members on or after July 1, 2013, must have at least ten years of qualifying service credit to apply for disability 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 – Employer and member contribution rates are established by the State Teachers Retirement Board and limited by Chapter 3307 of the Ohio Revised Code. For the fiscal year ended June 30, 2018, the employer rate was 14 percent and the plan members were also required to contribute 14 percent of covered salary. The fiscal year 2018 contribution rates were equal to the statutory maximum rates.

The School District's contractually required contribution to STRS was \$2,315,327 for fiscal year 2018. Of this amount \$200,879 is reported as an intergovernmental payable.

#### ***Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions***

The net pension liability was measured as of June 30, 2017, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The School District's proportion of the net pension liability was based on the School District's share of contributions to the pension plan relative to the contributions of all participating entities. Following is information related to the proportionate share and pension expense:

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	<u>SERS</u>	<u>STRS</u>	<u>Total</u>
Proportion of the Net Pension Liability Prior Measurement Date	0.20124960%	0.16919372%	
Proportion of the Net Pension Liability Current Measurement Date	<u>0.18753560%</u>	<u>0.16225731%</u>	
Change in Proportionate Share	<u>-0.01371400%</u>	<u>-0.00693641%</u>	
Proportionate Share of the Net Pension Liability	\$11,204,839	\$38,544,572	\$49,749,411
Pension Expense	(\$944,736)	(\$16,759,487)	(\$17,704,223)

At June 30, 2018, the School District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>SERS</u>	<u>STRS</u>	<u>Total</u>
<b>Deferred Outflows of Resources</b>			
Differences between expected and actual experience	\$482,217	\$1,488,410	\$1,970,627
Changes of assumptions	579,410	8,430,121	9,009,531
Changes in proportionate Share and difference between School District contributions and proportionate share of contributions	662	0	662
School District contributions subsequent to the measurement date	<u>810,032</u>	<u>2,315,327</u>	<u>3,125,359</u>
Total Deferred Outflows of Resources	<u>\$1,872,321</u>	<u>\$12,233,858</u>	<u>\$14,106,179</u>
<b>Deferred Inflows of Resources</b>			
Differences between expected and actual experience	\$0	\$310,654	\$310,654
Net difference between projected and actual earnings on pension plan investments	53,187	1,272,016	1,325,203
Changes in Proportionate Share and Difference between School District contributions and proportionate share of contributions	<u>927,294</u>	<u>4,982,081</u>	<u>5,909,375</u>
Total Deferred Inflows of Resources	<u>\$980,481</u>	<u>\$6,564,751</u>	<u>\$7,545,232</u>

\$3,125,359 reported as deferred outflows of resources related to pension resulting from School District contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ending June 30, 2019. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pension will be recognized in pension expense as follows:

	<u>SERS</u>	<u>STRS</u>	<u>Total</u>
Fiscal Year Ending June 30:			
2019	(\$61,263)	(\$141,899)	(\$203,162)
2020	406,952	1,588,481	1,995,433
2021	(2,674)	1,676,364	1,673,690
2022	<u>(261,207)</u>	<u>230,834</u>	<u>(30,373)</u>
Total	<u>\$81,808</u>	<u>\$3,353,780</u>	<u>\$3,435,588</u>

## East Cleveland City School District

Notes to the Basic Financial Statements  
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### Actuarial Assumptions - SERS

SERS' total pension liability was determined by their actuaries in accordance with GASB Statement No. 67, as part of their annual actuarial valuation for each defined benefit retirement plan. Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts (e.g., salaries, credited service) and assumptions about the probability of occurrence of events far into the future (e.g., mortality, disabilities, retirements, employment termination). Actuarially determined amounts are subject to continual review and potential modifications, as actual results are compared with past expectations and new estimates are made about the future.

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employers and plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing benefit costs between the employers and plan members to that point. The projection of benefits for financial reporting purposes does not explicitly incorporate the potential effects of legal or contractual funding limitations.

Actuarial calculations reflect a long-term perspective. For a newly hired employee, actuarial calculations will take into account the employee's entire career with the employer and also take into consideration the benefits, if any, paid to the employee after termination of employment until the death of the employee and any applicable contingent annuitant. In many cases actuarial calculations reflect several decades of service with the employer and the payment of benefits after termination.

Key methods and assumptions used in calculating the total pension liability in the latest actuarial valuation, prepared as of June 30, 2017, are presented below:

Wage Inflation	3.00 percent
Future Salary Increases, including inflation	3.50 percent to 18.20 percent
COLA or Ad Hoc COLA	2.5 percent
Investment Rate of Return	7.50 percent net of investments expense, including inflation
Actuarial Cost Method	Entry Age Normal

Prior to 2017, an assumption of 3 percent was used for COLA or Ad Hoc COLA.

For 2017, the mortality rates were based on the RP-2014 Blue Collar Mortality Table with fully generational projection and a five year age set-back for both males and females. Mortality among service retired members, and beneficiaries were based upon the RP-2014 Blue Collar Mortality Table with fully generational projection with Scale BB, 120 percent of male rates, and 110 percent of female rates. Mortality among disabled members were based upon the RP-2000 Disabled Mortality Table, 90 percent for male rates and 100 percent for female rates, set back five years is used for the period after disability retirement.

The most recent experience study was completed for the five year period ended June 30, 2015.

The long-term return expectation for the Pension Plan Investments has been determined by using a building-block approach and assumes a time horizon, as defined in SERS' *Statement of Investment Policy*. A forecasted rate of inflation serves as the baseline for the return expectation. Various real return premiums over the baseline inflation rate have been established for each asset class. The long-term expected nominal rate of return has been determined by calculating an arithmetic weighted average of the expected real return premiums for each asset class, adding the projected inflation rate, and adding the expected return from rebalanced uncorrelated asset classes.

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Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Cash	1.00 %	0.50 %
US Stocks	22.50	4.75
Non-US Stocks	22.50	7.00
Fixed Income	19.00	1.50
Private Equity	10.00	8.00
Real Assets	15.00	5.00
Multi-Asset Strategies	10.00	3.00
Total	100.00 %	

**Discount Rate** The total pension liability was calculated using the discount rate of 7.50 percent. The projection of cash flows used to determine the discount rate assumed the contributions from employers and from the members would be computed based on contribution requirements as stipulated by State statute. Projected inflows from investment earning were calculated using the long-term assumed investment rate of return (7.50 percent). Based on those assumptions, the plan’s fiduciary net position was projected to be available to make all future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefits to determine the total pension liability.

**Sensitivity of the School District's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate** Net pension liability is sensitive to changes in the discount rate, and to illustrate the potential impact the following table presents the net pension liability calculated using the discount rate of 7.50 percent, as well as what each plan’s net pension liability would be if it were calculated using a discount rate that is one percentage point lower (6.50 percent), or one percentage point higher (8.50 percent) than the current rate.

	1% Decrease (6.50%)	Current Discount Rate (7.50%)	1% Increase (8.50%)
School District's proportionate share of the net pension liability	\$15,549,403	\$11,204,839	\$7,565,378

**Actuarial Assumptions - STRS**

Key methods and assumptions used in the latest actuarial valuation, reflecting experience study results used in the July 1, 2017, actuarial valuation, compared with July 1, 2016 are presented below:

	July 1, 2017	July 1, 2016
Inflation	2.50 percent	2.75 percent
Projected salary increases	12.50 percent at age 20 to 2.50 percent at age 65	12.25 percent at age 20 to 2.75 percent at age 70
Investment Rate of Return	7.45 percent, net of investment expenses, including inflation	7.75 percent, net of investment expenses, including inflation
Payroll Increases	3 percent	3.5 percent
Cost-of-Living Adjustments (COLA)	0.0 percent, effective July 1, 2017	2 percent simple applied as follows: for members retiring before August 1, 2013, 2 percent per year; for members retiring August 1, 2013, or later, 2 percent COLA commences on fifth anniversary of retirement date.

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For the July 1, 2017, actuarial valuation, post-retirement mortality rates for healthy retirees are based on the RP-2014 Annuitant Mortality Table with 50 percent of rates through age 69, 70 percent of rates between ages 70 and 79, 90 percent of rates between ages 80 and 84, and 100 percent of rates thereafter, projected forward generationally using mortality improvement scale MP-2016. Post-retirement disabled mortality rates are based on the RP-2014 Disabled Mortality Table with 90 percent of rates for males and 100 percent of rates for females, projected forward generationally using mortality improvement scale MP-2016. Pre-retirement mortality rates are based on RP-2014 Employee Mortality Table, projected forward generationally using mortality improvement scale MP-2016.

For the July 1, 2016 actuarial valuation, mortality rates were based on the RP-2000 Combined Mortality Table (Projection 2022—Scale AA) for Males and Females. Males' ages are set-back two years through age 89 and no set-back for age 90 and above. Females younger than age 80 are set back four years, one year set back from age 80 through 89, and no set back from age 90 and above.

Actuarial assumptions used in the July 1 2017, valuation are based on the results of an actuarial experience study for the period July 1, 2011 through June 30, 2016. Actuarial assumptions used in the June 30, 2016, valuation are based on the results of an actuarial experience study, effective July 1, 2012.

STRS' investment consultant develops an estimate range for the investment return assumption based on the target allocation adopted by the Retirement Board. The target allocation and long-term expected rate of return for each major asset class are summarized as follows:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Rate of Return *</u>
Domestic Equity	28.00 %	7.35 %
International Equity	23.00	7.55
Alternatives	17.00	7.09
Fixed Income	21.00	3.00
Real Estate	10.00	6.00
Liquidity Reserves	1.00	2.25
 Total	 <u>100.00 %</u>	

\* 10 year annualized geometric nominal returns, which include the real rate of return and inflation of 2.25 percent and does not include investment expenses. Over a 30-year period, STRS' investment consultant indicates that the above target allocations should generate a return above the actuarial rate of return, without net value added by management.

**Discount Rate** The discount rate used to measure the total pension liability was 7.45 percent as of June 30, 2017. The discount rate used to measure the total pension liability was 7.75 percent as of June 30, 2016. The projection of cash flows used to determine the discount rate assumes that member and employer contributions will be made at the statutory contribution rates in accordance with rate increases described above. For this purpose, only employer contributions that are intended to fund benefits of current plan members and their beneficiaries are included. Based on those assumptions, STRS' fiduciary net position was projected to be available to make all projected future benefit payments to current plan members as of June 30, 2017. Therefore, the long-term expected rate of return on pension plan investments of 7.45 percent was applied to all periods of projected benefit payment to determine the total pension liability as of June 30, 2017.

**East Cleveland City School District**

*Notes to the Basic Financial Statements  
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***Sensitivity of the School District's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate*** The following table presents the School District's proportionate share of the net pension liability calculated using the current period discount rate assumption of 7.45 percent, as well as what the School District's proportionate share of the net pension liability would be if it were calculated using a discount rate that is one-percentage-point lower (6.45 percent) or one-percentage-point higher (8.45 percent) than the current rate:

	1% Decrease (6.45%)	Current Discount Rate (7.45%)	1% Increase (8.45%)
School District's proportionate share of the net pension liability	\$55,252,332	\$38,544,572	\$24,470,788

**Note 23 – Defined Benefit OPEB Plans**

See Note 22 for a description of the net OPEB liability

***Plan Description - School Employees Retirement System (SERS)***

Health Care Plan Description - The School District contributes to the SERS Health Care Fund, administered by SERS for non-certificated retirees and their beneficiaries. For GASB 75 purposes, this plan is considered a cost-sharing other postemployment benefit (OPEB) plan. SERS' Health Care Plan provides healthcare benefits to eligible individuals receiving retirement, disability, and survivor benefits, and to their eligible dependents. Members who retire after June 1, 1986, need 10 years of service credit, exclusive of most types of purchased credit, to qualify to participate in SERS' health care coverage. In addition to age and service retirees, disability benefit recipients and beneficiaries who are receiving monthly benefits due to the death of a member or retiree, are eligible for SERS' health care coverage. Most retirees and dependents choosing SERS' health care coverage are over the age of 65 and therefore enrolled in a fully insured Medicare Advantage plan; however, SERS maintains a traditional, self-insured preferred provider organization for its non-Medicare retiree population. For both groups, SERS offers a self-insured prescription drug program. Health care is a benefit that is permitted, not mandated, by statute. The financial report of the Plan is 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.

Access to health care for retirees and beneficiaries is permitted in accordance with Section 3309 of the Ohio Revised Code. The Health Care Fund was established and is administered in accordance with Internal Revenue Code Section 105(e). SERS' Retirement Board reserves the right to change or discontinue any health plan or program. Active employee members do not contribute to the Health Care Plan. The SERS Retirement Board established the rules for the premiums paid by the retirees for health care coverage for themselves and their dependents or for their surviving beneficiaries. Premiums vary depending on the plan selected, qualified years of service, Medicare eligibility, and retirement status.

Funding Policy - State statute permits SERS to fund the health care benefits through employer contributions. Each year, after the allocation for statutorily required pensions and benefits, the Retirement Board may allocate the remainder of the employer contribution of 14 percent of covered payroll to the Health Care Fund in accordance with the funding policy. For fiscal year 2018, .5 percent of covered payroll was made to health care. An additional health care surcharge on employers is collected for employees earning less than an

**East Cleveland City School District**

*Notes to the Basic Financial Statements  
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actuarially determined minimum compensation amount, pro-rated if less than a full year of service credit was earned. For fiscal year 2018, this amount was \$23,398. Statutes provide that no employer shall pay a health care surcharge greater than 2 percent of that employer's SERS-covered payroll; nor may SERS collect in aggregate more than 1.5 percent of the total statewide SERS-covered payroll for the health care surcharge. For fiscal year 2018, the School District's surcharge obligation was \$77,941.

The surcharge, added to the allocated portion of the 14 percent employer contribution rate is the total amount assigned to the Health Care Fund. The School District's contractually required contribution to SERS was \$108,859 for fiscal year 2018. Of this amount \$78,796 is reported as an intergovernmental payable.

***Plan Description - State Teachers Retirement System (STRS)***

Plan Description – The State Teachers Retirement System of Ohio (STRS) administers a cost-sharing Health Plan administered for eligible retirees who participated in the defined benefit or combined pension plans offered by STRS. Ohio law authorizes STRS to offer this plan. Benefits include hospitalization, physicians' fees, prescription drugs and partial reimbursement of monthly Medicare Part B premiums. Medicare Part B premium reimbursements will be discontinued effective January 1, 2020. The Plan is included in the report of STRS which can be obtained by visiting [www.strsoh.org](http://www.strsoh.org) or by calling (888) 227-7877.

Funding Policy – Ohio Revised Code Chapter 3307 authorizes STRS to offer the Plan and gives the Retirement Board discretionary authority over how much, if any, of the health care costs will be absorbed by STRS. Active employee members do not contribute to the Health Care Plan. Nearly all health care plan enrollees, for the most recent year, pay a portion of the health care costs in the form of a monthly premium. Under Ohio law, funding for post-employment health care may be deducted from employer contributions, currently 14 percent of covered payroll. For the fiscal year ended June 30, 2018, STRS did not allocate any employer contributions to post-employment health care.

***OPEB Liabilities, OPEB Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB***

The net OPEB liability was measured as of June 30, 2017, and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation as of that date. The School District's proportion of the net OPEB liability was based on the School District's share of contributions to the respective retirement systems relative to the contributions of all participating entities. Following is information related to the proportionate share and OPEB expense:

	<u>SERS</u>	<u>STRS</u>	<u>Total</u>
Proportion of the Net OPEB Liability			
Prior Measurement Date	0.19828290%	0.16193720%	
Proportion of the Net OPEB Liability			
Current Measurement Date	<u>0.18321750%</u>	<u>0.16225731%</u>	
Change in Proportionate Share	<u>-0.01506540%</u>	<u>0.00032011%</u>	
Proportionate Share of the Net			
OPEB Liability	\$4,917,077	\$6,330,682	\$11,247,759
OPEB Expense	\$165,358	(\$1,929,336)	(\$1,763,978)

At June 30, 2018, the School District reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:



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*Notes to the Basic Financial Statements*  
For the Fiscal Year Ended June 30, 2018

	<u>SERS</u>	<u>STRS</u>	<u>Total</u>
<b>Deferred Outflows of Resources</b>			
Differences between expected and actual experience	\$0	\$365,446	\$365,446
Changes in proportionate Share and difference between School District contributions and proportionate share of contributions	0	14,673	14,673
School District contributions subsequent to the measurement date	<u>108,859</u>	<u>0</u>	<u>108,859</u>
Total Deferred Outflows of Resources	<u>\$108,859</u>	<u>\$380,119</u>	<u>\$488,978</u>
<b>Deferred Inflows of Resources</b>			
Changes of assumptions	\$466,605	\$509,957	\$976,562
Net difference between projected and actual earnings on OPEB plan investments	12,985	270,588	283,573
Changes in Proportionate Share and Difference between School District contributions and proportionate share of contributions	<u>353,414</u>	<u>0</u>	<u>353,414</u>
Total Deferred Inflows of Resources	<u>\$833,004</u>	<u>\$780,545</u>	<u>\$1,613,549</u>

\$108,859 reported as deferred outflows of resources related to OPEB resulting from School District contributions subsequent to the measurement date will be recognized as a reduction of the net OPEB liability in the year ending June 30, 2019. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in OPEB expense as follows:

	<u>SERS</u>	<u>STRS</u>	<u>Total</u>
Fiscal Year Ending June 30:			
2019	(\$300,355)	(\$89,286)	(\$389,641)
2020	(300,355)	(89,286)	(389,641)
2021	(229,048)	(89,286)	(318,334)
2022	(3,246)	(89,288)	(92,534)
2023	0	(21,640)	(21,640)
Thereafter	<u>0</u>	<u>(21,640)</u>	<u>(21,640)</u>
Total	<u>(\$833,004)</u>	<u>(\$400,426)</u>	<u>(\$1,233,430)</u>

**Actuarial Assumptions - SERS**

The total OPEB liability is determined by SERS' actuaries in accordance with GASB Statement No. 74, as part of their annual actuarial valuation for each retirement plan. Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts (e.g., salaries, credited service) and assumptions about the probability of occurrence of events far into the future (e.g., mortality, disabilities, retirements, employment terminations). Actuarially determined amounts are subject to continual review and potential modifications, as actual results are compared with past expectations and new estimates are made about the future.

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employers and plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing benefit costs between the employers and plan members to that point. The projection of benefits for financial reporting purposes does not explicitly incorporate the potential effects of legal or contractual funding limitations.

## East Cleveland City School District

### Notes to the Basic Financial Statements For the Fiscal Year Ended June 30, 2018

Actuarial calculations reflect a long-term perspective. For a newly hired employee, actuarial calculations will take into account the employee's entire career with the employer and also take into consideration the benefits, if any, paid to the employee after termination of employment until the death of the employee and any applicable contingent annuitant. In many cases, actuarial calculations reflect several decades of service with the employer and the payment of benefits after termination.

Key methods and assumptions used in calculating the total OPEB liability in the latest actuarial valuation date of June 30, 2017, are presented below:

Wage Inflation	3.00 percent
Future Salary Increases, including inflation	3.50 percent to 18.20 percent
Investment Rate of Return	7.50 percent net of investments expense, including inflation
Municipal Bond Index Rate:	
Measurement Date	3.56 percent
Prior Measurement Date	2.92 percent
Single Equivalent Interest Rate, net of plan investment expense, including price inflation	
Measurement Date	3.63 percent
Prior Measurement Date	2.98 percent
Medical Trend Assumption	
Medicare	5.50 to 5.00 percent
Pre-Medicare	7.50 to 5.00 percent

Mortality rates were based on the RP-2014 Blue Collar Mortality Table with fully generational projection and Scale BB, 120 percent of male rates and 110 percent of female rates. RP-2000 Disabled Mortality Table with 90 percent for male rates and 100 percent for female rates set back five years.

The most recent experience study was completed for the five year period ended June 30, 2015.

The long-term expected rate of return on plan assets is reviewed as part of the actuarial five-year experience study. The most recent study covers fiscal years 2010 through 2015, and was adopted by the Board on April 21, 2016. Several factors are considered in evaluating the long-term rate of return assumption including long-term historical data, estimates inherent in current market data, and a log-normal distribution analysis in which best-estimate ranges of expected future real rates of return were developed by the investment consultant for each major asset class. These ranges were combined to produce the long-term expected rate of return, 7.50 percent, by weighting the expected future real rates of return by the target asset allocation percentage and then adding expected inflation. The capital market assumptions developed by the investment consultant are intended for use over a 10-year horizon and may not be useful in setting the long-term rate of return for funding pension plans which covers a longer timeframe. The assumption is intended to be a long-term assumption and is not expected to change absent a significant change in the asset allocation, a change in the inflation assumption, or a fundamental change in the market that alters expected returns in future years.

The SERS health care plan follows the same asset allocation and long-term expected real rate of return for each major asset class as the pension plan, see Note 22.

**Discount Rate** The discount rate used to measure the total OPEB liability at June 30, 2017 was 3.63 percent. The discount rate used to measure total OPEB liability prior to June 30, 2017 was 2.98 percent. The projection of cash flows used to determine the discount rate assumed that contributions will be made from members and the System at the state statute contribution rate of 2.00 percent of projected covered employee payroll each

**East Cleveland City School District**

*Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2018*

year, which includes a 1.50 percent payroll surcharge and 0.50 percent of contributions from the basic benefits plan. Based on these assumptions, the OPEB plan's fiduciary net position was projected to become insufficient to make future benefit payments during the fiscal year ending June 30, 2025. Therefore, the long-term expected rate of return on OPEB plan assets was used to present value the projected benefit payments through the fiscal year ending June 30, 2024 and the Fidelity General Obligation 20-year Municipal Bond Index rate of 3.56 percent, as of June 30, 2017 (i.e. municipal bond rate), was used to present value the projected benefit payments for the remaining years in the projection. The total present value of projected benefit payments from all years was then used to determine the single rate of return that was used as the discount rate. The projection of future benefit payments for all current plan members was until the benefit payments ran out.

***Sensitivity of the School District's Proportionate Share of the Net OPEB Liability to Changes in the Discount Rate and Changes in the Health Care Cost Trend Rates*** The net OPEB liability is sensitive to changes in the discount rate and the health care cost trend rate. The following table presents the net OPEB liability of SERS, what SERS' net OPEB liability would be if it were calculated using a discount rate that is 1 percentage point lower (2.63%) and higher (4.63%) than the current discount rate (3.63%). Also shown is what SERS' net OPEB liability would be based on health care cost trend rates that are 1 percentage point lower (6.5% decreasing to 4.0%) and higher (8.5% decreasing to 6.0%) than the current rate.

	1% Decrease (2.63%)	Current Discount Rate (3.63%)	1% Increase (4.63%)
School District's proportionate share of the net OPEB liability	\$5,937,996	\$4,917,077	\$4,108,247

  

	1% Decrease (6.5 % decreasing to 4.0 %)	Current Trend Rate (7.5 % decreasing to 5.0 %)	1% Increase (8.5 % decreasing to 6.0 %)
School District's proportionate share of the net OPEB liability	\$3,989,839	\$4,917,077	\$6,144,291

***Actuarial Assumptions – STRS***

Key methods and assumptions used in the latest actuarial valuation, reflecting experience study results used in the June 30, 2017, actuarial valuation are presented below:

Inflation	2.50 percent
Projected salary increases	12.50 percent at age 20 to 2.50 percent at age 65
Investment Rate of Return	7.45 percent, net of investment expenses, including inflation
Payroll Increases	3 percent
Cost-of-Living Adjustments (COLA)	0.0 percent, effective July 1, 2017
Blended Discount Rate of Return	4.13 percent
Health Care Cost Trends	6 to 11 percent initial, 4.5 percent ultimate

Projections of benefits include the historical pattern of sharing benefit costs between the employers and retired plan members.

## East Cleveland City School District

Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2018

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For healthy retirees the mortality rates are based on the RP-2014 Annuitant Mortality Table with 50 percent of rates through age 69, 70 percent of rates between ages 70 and 79, 90 percent of rates between ages 80 and 84, and 100 percent of rates thereafter, projected forward generationally using mortality improvement scale MP-2016. For disabled retirees, mortality rates are based on the RP-2014 Disabled Mortality Table with 90 percent of rates for males and 100 percent of rates for females, projected forward generationally using mortality improvement scale MP-2016.

Actuarial assumptions used in the June 30, 2017, valuation are based on the results of an actuarial experience study for the period July 1, 2011 through June 30, 2016.

Since the prior measurement date, the discount rate was increased from 3.26 percent to 4.13 percent based on the methodology defined under GASB *Statement No. 74, Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans (OPEB)* and the long term expected rate of return was reduced from 7.75 percent to 7.45 percent. Valuation year per capita health care costs were updated, and the salary scale was modified. The percentage of future retirees electing each option was updated based on current data and the percentage of future disabled retirees and terminated vested participants electing health coverage were decreased. The assumed mortality, disability, retirement, withdrawal and future health care cost trend rates were modified along with the portion of rebated prescription drug costs.

Also since the prior measurement date, the subsidy multiplier for non-Medicare benefit recipients was reduced from 2.1 percent to 1.9 percent per year of service. Medicare Part B premium reimbursements were discontinued for certain survivors and beneficiaries and all remaining Medicare Part B premium reimbursements will be discontinued beginning January 2019. Subsequent to the current measurement date, the date for discontinuing remaining Medicare Part B premium reimbursements was extended to January 2020.

The SERS health care plan follows the same asset allocation and long-term expected real rate of return for each major asset class as the pension plan, see Note 22.

**Discount Rate** The discount rate used to measure the total OPEB liability was 4.13 percent as of June 30, 2017. The projection of cash flows used to determine the discount rate assumes STRS Ohio continues to allocate no employer contributions to the health care fund. Based on these assumptions, the OPEB plan's fiduciary net position was not projected to be sufficient to make all projected future benefit payments of current plan members. The OPEB plan's fiduciary net position was projected to become insufficient to make future benefit payments during the fiscal year ending June 30, 2037. Therefore, the long-term expected rate of return on OPEB plan assets was used to determine the present value of the projected benefit payments through the fiscal year ending June 30, 2036 and the Bond Buyer 20-year municipal bond rate of 3.58 percent as of June 30, 2017 (i.e. municipal bond rate), was used to determine the present value of the projected benefit payments for the remaining years in the projection. The total present value of projected benefit payments from all years was then used to determine the single rate of return that was used as the discount rate. The blended discount rate of 4.13 percent, which represents the long-term expected rate of return of 7.45 percent for the funded benefit payments and the Bond Buyer 20-year municipal bond rate of 3.58 percent for the unfunded benefit payments, was used to measure the total OPEB liability as of June 30, 2017. A blended discount rate of 3.26 percent which represents the long term expected rate of return of 7.75 percent for the funded benefit payments and the Bond Buyer 20-year municipal bond rate of 2.85 percent for the unfunded benefit payments was used to measure the total OPEB liability at June 30, 2016.

**Sensitivity of the School District's Proportionate Share of the Net OPEB Liability to Changes in the Discount and Health Care Cost Trend Rate** The following table represents the net OPEB liability as of June 30, 2017, calculated using the current period discount rate assumption of 4.13 percent, as well as what the net

**East Cleveland City School District**  
*Notes to the Basic Financial Statements*  
*For the Fiscal Year Ended June 30, 2018*

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OPEB liability would be if it were calculated using a discount rate that is one percentage point lower (3.13 percent) or one percentage point higher (5.13 percent) than the current assumption. Also shown is the net OPEB liability as if it were calculated using health care cost trend rates that are one percentage point lower or one percentage point higher than the current health care cost trend rates.

	1% Decrease (3.13%)	Current Discount Rate (4.13%)	1% Increase (5.13%)
School District's proportionate share of the net OPEB liability	\$8,498,838	\$6,330,682	\$4,617,129
	1% Decrease	Current Trend Rate	1% Increase
School District's proportionate share of the net OPEB liability	\$4,398,286	\$6,330,682	\$8,873,940

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## **Required Supplementary Information**

**East Cleveland City School**  
*Required Supplementary Information*  
*Schedule of the School District's Proportionate Share of the Net Pension Liability*  
*School Employees Retirement System of Ohio*  
*Last Five Fiscal Years (1)*

	2018	2017	2016
School District's Proportion of the Net Pension Liability	0.18753560%	0.20124960%	0.17535119%
School District's Proportionate Share of the Net Pension Liability	\$11,204,839	\$14,729,613	\$11,483,988
School District's Covered Payroll	\$6,000,237	\$6,000,179	\$6,224,693
School District's Proportionate Share of the Net Pension Liability as a Percentage of its Covered - Payroll	186.74%	245.49%	184.49%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	69.50%	62.98%	69.16%

(1) Information prior to 2014 is not available.

\*Amounts presented for each fiscal year were determined as of the School District's measurement date which is the prior fiscal year end.

See accompanying notes to the required supplementary information



<u>2015</u>	<u>2014</u>
0.19417047%	0.19417047%
\$11,160,847	\$13,114,152
\$6,134,211	\$6,685,412
181.94%	196.16%
71.70%	65.52%

**East Cleveland City School**  
*Required Supplementary Information*  
*Schedule of the School District's Proportionate Share of the Net OPEB Liability*  
*School Employees Retirement System of Ohio*  
*Last Two Fiscal Years (1)*

	2018	2017
School District's Proportion of the Net OPEB Liability	0.18321750%	0.19828290%
School District's Proportionate Share of the Net OPEB Liability	\$4,917,077	\$5,651,796
School District's Covered Payroll	\$6,000,237	\$6,000,179
School District's Proportionate Share of the Net OPEB Liability as a Percentage of its Covered - Payroll	81.95%	94.19%
Plan Fiduciary Net Position as a Percentage of the Total OPEB Liability	12.46%	11.49%

(1) Information prior to 2017 is not available.

\*Amounts presented for each fiscal year were determined as of the School District's measurement date which is the prior fiscal year end.

See accompanying notes to the required supplementary information

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**East Cleveland City School**  
*Required Supplementary Information*  
*Schedule of the School District's Proportionate Share of the Net Pension Liability*  
*State Teachers Retirement System of Ohio*  
*Last Five Fiscal Years (1)*

	2018	2017	2016
School District's Proportion of the Net Pension Liability	0.16225731%	0.16919372%	0.17535119%
School District's Proportionate Share of the Net Pension Liability	\$38,544,572	\$56,634,237	\$48,461,939
School District's Covered Payroll	\$16,538,050	\$16,711,821	\$18,342,043
School District's Proportionate Share of the Net Pension Liability as a Percentage of its Covered - Payroll	233.07%	338.89%	264.21%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	75.30%	66.80%	72.10%

(1) Information prior to 2014 is not available.

\*Amounts presented for each fiscal year were determined as of the School District's measurement date which is the prior fiscal year end.

See accompanying notes to the required supplementary information

2015	2014
0.19417040%	0.19417047%
\$47,228,977	\$56,258,850
\$18,037,057	\$19,650,654
261.84%	286.30%
74.70%	69.30%

**East Cleveland City School**  
*Required Supplementary Information*  
*Schedule of the School District's Proportionate Share of the Net OPEB Liability*  
*Sstate Teachers Retirement System of Ohio*  
*Last Two Fiscal Years (1)*

	2018	2017
School District's Proportion of the Net OPEB Liability	0.16225731%	0.16193720%
School District's Proportionate Share of the Net OPEB Liability	\$6,330,682	\$8,660,444
School District's Covered Payroll	\$16,538,050	\$16,711,821
School District's Proportionate Share of the Net OPEB Liability as a Percentage of its Covered - Payroll	38.28%	51.82%
Plan Fiduciary Net Position as a Percentage of the Total OPEB Liability	47.10%	37.30%

(1) Information prior to 2017 is not available.

\*Amounts presented for each fiscal year were determined as of the School District's measurement date which is the prior fiscal year end.

See accompanying notes to the required supplementary information

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**East Cleveland City School**  
*Required Supplementary Information*  
*Schedule of the School District's Contributions*  
*School Employees Retirement System of Ohio*  
*Last Ten Fiscal Years*

	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
<b>Net Pension Liability</b>				
Contractually Required Contribution	\$810,032	\$840,025	\$871,457	\$808,489
Contributions in Relation to the Contractually Required Contribution	<u>(810,032)</u>	<u>(840,025)</u>	<u>(871,457)</u>	<u>(808,489)</u>
Contribution Deficiency (Excess)	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>
School District Covered Payroll (1)	\$6,000,237	\$6,000,179	\$6,224,693	\$6,134,211
Pension Contributions as a Percentage of Covered Payroll	<u>13.50%</u>	<u>14.00%</u>	<u>14.00%</u>	<u>13.18%</u>
<b>Net OPEB Liability</b>				
Contractually Required Contribution (2)	107,942	67,073	76,042	116,220
Contributions in Relation to the Contractually Required Contribution	<u>(107,942)</u>	<u>(67,073)</u>	<u>(76,042)</u>	<u>(116,220)</u>
Contribution Deficiency (Excess)	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>
OPEB Contributions as a Percentage of Covered Payroll	<u>1.80%</u>	<u>1.12%</u>	<u>1.22%</u>	<u>1.89%</u>
Total Contributions as a Percentage of Covered Payroll (2)	<u>15.30%</u>	<u>15.12%</u>	<u>15.22%</u>	<u>15.07%</u>

(1) The School District's covered payroll is the same for Pension and OPEB.

(2) Includes Surcharge

See accompanying notes to the required supplementary information



2014	2013	2012	2011	2010	2009
\$875,789	\$841,008	\$890,540	\$856,995	\$851,012	\$584,001
(875,789)	(841,008)	(890,540)	(856,995)	(851,012)	(584,001)
\$0	\$0	\$0	\$0	\$0	\$0
\$6,685,412	\$6,419,908	\$7,012,126	\$7,256,520	\$6,658,936	\$6,424,653
13.10%	13.10%	12.70%	11.81%	12.78%	9.09%
80,256	80,928	137,885	206,035	124,909	356,818
(80,256)	(80,928)	(137,885)	(206,035)	(124,909)	(356,818)
\$0	\$0	\$0	\$0	\$0	\$0
1.20%	1.26%	1.97%	2.84%	1.88%	5.55%
14.30%	14.36%	14.67%	14.65%	14.66%	14.64%

**East Cleveland City School**  
*Required Supplementary Information*  
*Schedule of the School District's Contributions*  
*State Teachers Retirement System of Ohio*  
*Last Ten Fiscal Years*

	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
<b>Net Pension Liability</b>				
Contractually Required Contribution	\$2,315,327	\$2,339,655	\$2,567,886	\$2,525,188
Contributions in Relation to the Contractually Required Contribution	<u>(2,315,327)</u>	<u>(2,339,655)</u>	<u>(2,567,886)</u>	<u>(2,525,188)</u>
Contribution Deficiency (Excess)	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>
School District Covered Payroll (2)	\$16,538,050	\$16,711,821	\$18,342,043	\$18,037,057
Pension Contributions as a Percentage of Covered Payroll	<u>14.00%</u>	<u>14.00%</u>	<u>14.00%</u>	<u>14.00%</u>
<b>Net OPEB Liability</b>				
Contractually Required Contribution	\$0	\$0	\$0	\$0
Contributions in Relation to the Contractually Required Contribution	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
Contribution Deficiency (Excess)	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>
OPEB Contributions as a Percentage of Covered Payroll	<u>0.00%</u>	<u>0.00%</u>	<u>0.00%</u>	<u>0.00%</u>
Total Contributions as a Percentage of Covered Payroll	<u>14.00%</u>	<u>14.00%</u>	<u>14.00%</u>	<u>14.00%</u>

See accompanying notes to the required supplementary information

<u>2014</u>	<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>
\$2,554,585	\$2,891,467	\$2,889,886	\$2,895,701	\$2,849,776	\$2,837,737
<u>(2,554,585)</u>	<u>(2,891,467)</u>	<u>(2,889,886)</u>	<u>(2,895,701)</u>	<u>(2,849,776)</u>	<u>(2,837,737)</u>
<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>
\$19,650,654	\$22,242,054	\$22,229,892	\$22,274,623	\$21,921,354	\$21,828,746
<u>13.00%</u>	<u>13.00%</u>	<u>13.00%</u>	<u>13.00%</u>	<u>13.00%</u>	<u>13.00%</u>
\$196,507	\$222,421	\$222,299	\$222,746	\$219,214	\$218,287
<u>(196,507)</u>	<u>(222,421)</u>	<u>(222,299)</u>	<u>(222,746)</u>	<u>(219,214)</u>	<u>(218,287)</u>
<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>
<u>1.00%</u>	<u>1.00%</u>	<u>1.00%</u>	<u>1.00%</u>	<u>1.00%</u>	<u>1.00%</u>
<u>14.00%</u>	<u>14.00%</u>	<u>14.00%</u>	<u>14.00%</u>	<u>14.00%</u>	<u>14.00%</u>

## East Cleveland City School District, Ohio

Notes to Required Supplementary Information  
For the Fiscal Year Ended June 30, 2018

### Net Pension Liability

#### Changes in Assumptions – SERS

For fiscal year 2018, an assumption of 2.5 percent was used for COLA or Ad Hoc Cola. Prior to 2018, an assumption of 3 percent was used.

Beginning with fiscal year 2017, amounts reported incorporate changes in assumptions used by SERS in calculating the total pension liability in the latest actuarial valuation. These new assumptions compared with those used in fiscal year 2016 and prior are presented below:

	Fiscal Year 2017	Fiscal Year 2016 and Prior
Wage Inflation	3.00 percent	3.25 percent
Future Salary Increases, including inflation	3.50 percent to 18.20 percent	4.00 percent to 22.00 percent
Investment Rate of Return	7.50 percent net of investments expense, including inflation	7.75 percent net of investments expense, including inflation

Beginning with fiscal year 2017, mortality assumptions use mortality rates that are based on the RP-2014 Blue Collar Mortality Table with fully generational projection and a five year age set-back for both males and females. Amounts reported for fiscal year 2016 and prior, use mortality assumptions that are based on the 1994 Group Annuity Mortality Table set back one year for both men and women. Special mortality tables were used for the period after disability retirement.

#### Changes in Assumptions - STRS

Amounts reported for fiscal year 2018 incorporate changes in assumptions and changes in benefit terms used by STRS in calculating the total pension liability in the latest actuarial valuation. These new assumptions compared with those used in fiscal year 2017 and prior are presented below:

	Fiscal Year 2018	Fiscal Year 2017 and Prior
Inflation	2.50 percent	2.75 percent
Projected salary increases	12.50 percent at age 20 to 2.50 percent at age 65	12.25 percent at age 20 to 2.75 percent at age 70
Investment Rate of Return	7.45 percent, net of investment expenses, including inflation	7.75 percent, net of investment expenses, including inflation
Payroll Increases	3 percent	3.5 percent
Cost-of-Living Adjustments (COLA)	0.0 percent, effective July 1, 2017	2 percent simple applied as follows: for members retiring before August 1, 2013, 2 percent per year; for members retiring August 1, 2013, or later, 2 percent COLA commences on fifth anniversary of retirement date.

For fiscal year 2018 post-retirement mortality rates for healthy retirees are based on the RP-2014 Annuitant Mortality Table with 50 percent of rates through age 69, 70% of rates between ages 70 and 79, 90 percent of rates between ages 80 and 84, and 100 percent of rates thereafter, projected forward generationally using mortality improvement scale MP-2016. Post-retirement disabled mortality rates are based on the RP-2014

## East Cleveland City School District, Ohio

Notes to Required Supplementary Information  
For the Fiscal Year Ended June 30, 2018

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Disabled Mortality Table with 90 percent of rates for males and 100 percent of rates for females, projected forward generationally using mortality improvement scale MP-2016. Pre-retirement mortality rates are based on RP-2014 Employee Mortality Table, projected forward generationally using mortality improvement scale MP-2016.

For fiscal year 2017 and prior actuarial valuation, mortality rates were based on the RP-2000 Combined Mortality Table (Projection 2022—Scale AA) for Males and Females. Males' ages are set-back two years through age 89 and no set-back for age 90 and above. Females younger than age 80 are set back four years, one year set back from age 80 through 89, and no set back from age 90 and above.

### Net OPEB Liability

#### Changes in Assumptions – SERS

Amounts reported for fiscal year 2018 incorporate changes in key methods and assumptions used in calculating the total OPEB liability as presented below:

Municipal Bond Index Rate:	
Fiscal year 2018	3.56 percent
Fiscal year 2017	2.92 percent
Single Equivalent Interest Rate, net of plan investment expense, including price inflation	
Fiscal year 2018	3.63 percent
Fiscal year 2017	2.98 percent

#### Changes in Assumptions – STRS

For fiscal year 2018, the discount rate was increased from 3.26 percent to 4.13 percent based on the methodology defined under GASB *Statement No. 74, Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans (OPEB)* and the long term expected rate of return was reduced from 7.75 percent to 7.45 percent. Valuation year per capita health care costs were updated, and the salary scale was modified. The percentage of future retirees electing each option was updated based on current data and the percentage of future disabled retirees and terminated vested participants electing health coverage were decreased. The assumed mortality, disability, retirement, withdrawal and future health care cost trend rates were modified along with the portion of rebated prescription drug costs.

Also for fiscal year 2018, the subsidy multiplier for non-Medicare benefit recipients was reduced from 2.1 percent to 1.9 percent per year of service. Medicare Part B premium reimbursements were discontinued for certain survivors and beneficiaries and all remaining Medicare Part B premium reimbursements will be discontinued beginning January 2019.

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**EAST CLEVELAND CITY SCHOOL DISTRICT  
CUYAHOGA COUNTY**

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
FOR THE YEAR ENDED JUNE 30, 2018**

<b>FEDERAL GRANTOR</b> <i>Pass Through Grantor</i> <i>Program Title</i>	Federal CFDA Number	Expenditures
<b>U. S. DEPARTMENT OF AGRICULTURE</b>		
<i>Passed Through the Ohio Department of Education:</i>		
Child Nutrition Cluster:		
Non-Cash Assistance (Food Distribution):		
National School Lunch Program	10.555	\$ 90,047
Cash Assistance:		
National School Lunch Program	10.555	679,869
School Breakfast Program	10.553	295,649
Summer Food Service Program for Children	10.559	37,636
Cash Assistance Subtotal		1,013,154
Total Child Nutrition Cluster		1,103,201
 Fresh Fruit and Vegetable Program	 10.582	 71,816
<b>Total U.S. Department of Agriculture</b>		<b>1,175,017</b>
 <b>U.S. DEPARTMENT OF DEFENSE</b>		
<i>Direct Program:</i>		
Junior ROTC	12.000	35,070
<b>Total U.S. Department of Defense</b>		<b>35,070</b>
 <b>U.S. DEPARTMENT OF EDUCATION</b>		
<i>Passed Through the Ohio Department of Education:</i>		
Title I Grants to Local Educational Agencies	84.010	3,170,526
 Special Education Cluster:		
Special Education Grants to States	84.027	805,353
Special Education Preschool Grants	84.173	18,476
Total Special Education Cluster		823,829
 Career and Technical Education - Basic Grants to States	 84.048	 76,133
 Improving Teacher Quality State Grants	 84.367	 189,432
 Student Support and Academic Enrichment	 84.424	 14,580
 <b>Total U.S. Department of Education</b>		<b>4,274,500</b>
<b>TOTAL FEDERAL FINANCIAL ASSISTANCE</b>		<b>\$ 5,484,587</b>

See the accompanying notes to the Schedule

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**EAST CLEVELAND CITY SCHOOL DISTRICT  
CUYAHOGA COUNTY**

**NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
2 CFR 200.510(b)(6)  
FOR THE YEAR ENDED JUNE 30, 2018**

**NOTE A – BASIS OF PRESENTATION**

The accompanying Schedule of Expenditures of Federal Awards (the Schedule) includes the federal award activity of East Cleveland City School District (the District's) under programs of the federal government for the year ended June 30, 2018. The information on this Schedule is prepared in accordance with the requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the Schedule presents only a selected portion of the operations of the District, it is not intended to and does not present the financial position, changes in net position, or cash flows of the District.

**NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

Expenditures reported on the Schedule are reported on the cash basis of accounting. Such expenditures are recognized following the cost principles contained in Uniform Guidance wherein certain types of expenditures may or may not be allowable or may be limited as to reimbursement.

**NOTE C – INDIRECT COST RATE**

The District has elected not to use the 10-percent de minimis indirect cost rate as allowed under the Uniform Guidance.

**NOTE D - 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 E– 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 F- 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.

**NOTE G- TRANSFERS BETWEEN PROGRAM YEARS**

Federal regulations require schools to obligate certain federal awards by June 30. However, with ODE's consent, schools can transfer unobligated amounts to the subsequent fiscal year's program. The District transferred the following amounts from 2017 to 2018 programs:

EAST CLEVELAND CITY SCHOOL DISTRICT  
CUYAHOGA COUNTY

NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
2 CFR 200.510(b)(6)  
FOR THE YEAR ENDED JUNE 30, 2018  
(CONTINUED)

NOTE G- TRANSFERS BETWEEN PROGRAM YEARS (CONTINUED)

<u>Program Title</u>	<u>CFDA Number</u>	<u>Amt. Transferred</u>
Title I Grants to Local Educational Agencies	84.010	\$ 429,005
Special Education - Grants to States	84.027	\$ 343,128
Student Support and Academic Enrichment	84.424	\$ 54,868
Early Childhood Special Education	84.173	\$ 5,263

# OHIO AUDITOR OF STATE KEITH FABER



## INDEPENDENT AUDITOR'S 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

To the Board of Education:

We have audited, in accordance with auditing standards generally accepted in the United States and the Comptroller General of the United States' *Government Auditing Standards*, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the East Cleveland City School District, Cuyahoga County, (the District) as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the District's basic financial statements and have issued our report thereon dated May 29, 2019, wherein we noted that the District adopted Governmental Accounting Standard No. 75, *Accounting and Financial Reporting for Postemployment Benefits other than Pensions* and restated June 30, 2017 fund balances due to prior years' errors in interfund transactions and balances.

### ***Internal Control Over Financial Reporting***

As part of our financial statement audit, we considered the District's internal control over financial reporting (internal control) to determine the audit procedures appropriate in the circumstances to the extent necessary to support our opinions on the financial statements, but not to the extent necessary to opine on the effectiveness of the District's internal control. Accordingly, we have not opined on it.

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 a reasonable possibility that internal control will not prevent or detect and timely correct a material misstatement of the District's financial statements. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all internal control deficiencies that might be material weaknesses or significant deficiencies. Therefore, unidentified material weaknesses or significant deficiencies may exist. We did identify a certain deficiency in internal control, described in the accompanying schedule of findings that we consider a material weakness. We consider finding 2018-002 to be a material weakness.

***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, opining on compliance with those provisions was not an objective of our audit and accordingly, we do not express an opinion. The results of our tests disclosed an instance of noncompliance or other matters we must report under *Government Auditing Standards* which is described in the accompanying schedule of findings as item 2018-001.

***District's Response to Findings***

The District's responses to the findings identified in our audit are described in the accompanying schedule of findings and / or corrective action plan. We did not subject the District's responses to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

***Purpose of this Report***

This report only describes the scope of our internal control and compliance testing and our testing results, and does not opine on the effectiveness of the District's internal control or on compliance. This report is an integral part of an audit performed under *Government Auditing Standards* in considering the District's internal control and compliance. Accordingly, this report is not suitable for any other purpose.



Keith Faber  
Auditor of State  
Columbus, Ohio

May 29, 2019

# OHIO AUDITOR OF STATE KEITH FABER



## INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR FEDERAL PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE

East Cleveland City School District  
Cuyahoga County  
1843 Stanwood Road  
East Cleveland, Ohio 44112

To the Board of Education:

### ***Report on Compliance for each Major Federal Program***

We have audited the East Cleveland City School District's (the District) compliance with the applicable requirements described in the U.S. Office of Management and Budget (OMB) *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, 2018. The *Summary of Auditor's Results* in the accompanying schedule of findings identifies the District's major federal programs.

### ***Management's Responsibility***

The District's Management is responsible for complying with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

### ***Auditor's Responsibility***

Our responsibility is to opine on the District's compliance for each of the District's major federal programs based on our audit of the applicable compliance requirements referred to above. Our compliance audit followed auditing standards generally accepted in the United States of America; the standards for financial audits included in the Comptroller General of the United States' *Government Auditing Standards*; and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). These standards and the Uniform Guidance require us to plan and perform the audit to reasonably assure whether noncompliance with the applicable compliance requirements referred to above that could directly and materially affect a major federal program occurred. An audit includes examining, on a test basis, evidence about the District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe our audit provides a reasonable basis for our compliance opinion on each of the District's major programs. However, our audit does not provide a legal determination of the District's compliance.

***Opinion on each Major Federal Program***

In our opinion, the East Cleveland City School District complied, in all material respects with the compliance requirements referred to above that could directly and materially affect each of its major federal programs for the year ended June 30, 2018.

***Report on Internal Control Over Compliance***

The District's management is responsible for establishing and maintaining effective internal control over compliance with the applicable compliance requirements referred to above. In planning and performing our compliance audit, we considered the District's internal control over compliance with the applicable requirements that could directly and materially affect a major federal program, to determine our auditing procedures appropriate for opining on each major federal program's compliance and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not to the extent needed to opine on the effectiveness of internal control over compliance. Accordingly, we have not opined on the effectiveness of the District's internal control over compliance.

*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's applicable 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. A *significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with federal program's applicable compliance requirement that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

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

This report only describes the scope of our internal control over compliance tests and the results of this testing based on Uniform Guidance requirements. Accordingly, this report is not suitable for any other purpose.



Keith Faber  
Auditor of State  
Columbus, Ohio

May 29, 2019

**EAST CLEVELAND CITY SCHOOL DISTRICT  
CUYAHOGA COUNTY**

**SCHEDULE OF FINDINGS  
2 CFR § 200.515  
JUNE 30, 2018**

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

<b>(d)(1)(i)</b>	<b>Type of Financial Statement Opinion</b>	Unmodified
<b>(d)(1)(ii)</b>	<b>Were there any material weaknesses in internal control reported at the financial statement level (GAGAS)?</b>	Yes
<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>	Yes
<b>(d)(1)(iv)</b>	<b>Were there any material internal control weaknesses reported for major federal programs?</b>	No
<b>(d)(1)(iv)</b>	<b>Were there any 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>	Unmodified
<b>(d)(1)(vi)</b>	<b>Are there any reportable findings under 2 CFR §200.516(a)?</b>	No
<b>(d)(1)(vii)</b>	<b>Major Programs (list):</b>	CFDA # 84.010- Title I Grants to Local Agencies  Child Nutrition Cluster: CFDA# 10.553- School Breakfast Program CFDA# 10.555- National School Lunch Program CFDA # 10.559- Summer Food Program  Special Education Cluster: CFDA# 84.027- Special Education- Grants to States (IDEA Part B) CFDA# 84.173- Special Education- Preschool Grants (IDEA Preschool)
<b>(d)(1)(viii)</b>	<b>Dollar Threshold: Type A/B Programs</b>	Type A: > \$ 750,000 Type B: all others
<b>(d)(1)(ix)</b>	<b>Low Risk Auditee under 2 CFR §200.520?</b>	No

EAST CLEVELAND CITY SCHOOL DISTRICT  
CUYAHOGA COUNTY

SCHEDULE OF FINDINGS  
2 CFR § 200.515  
JUNE 30, 2018  
(CONTINUED)

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

1. Establishment of an Internal Service Fund

<i>Finding Number</i>	2018-001
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NONCOMPLIANCE

**Ohio Rev. Code § 9.833(C)(2)** states in part, that “Each political subdivision shall reserve funds necessary for an individual or joint self-insurance program in a special fund that may be established for political subdivisions other than an agency or instrumentality pursuant to an ordinance or resolution of the political subdivision and not subject to section 5705.12 of the Revised Code. Furthermore, GASB Cod. C50.715-2 states in part, “The use of an internal service fund may be appropriate when a governmental entity wants to segregate certain risk financing activities from its other activities, either for management and analysis or for financial statement presentation. Use of an internal service fund may also be appropriate when a government intends to recover the cost of its risk financing activities from other units of the government or when a government wants to allocate charges and possibly accumulate future catastrophe reserves.”

Further, Auditor of State Bulletin 2001-005 supplements section 9.833(C)(2) by requiring single subdivision programs, including those administered by School Districts, to establish a separate internal service fund by resolution or ordinance to account for the claims, administrative and other related program costs.

During the fiscal year, the District did not utilize an internal service fund to account for the self-insurance program and its activities but rather expensed health insurance costs directly from the General, Title I and Other Governmental Funds. These expenses totaled \$4,243,406, \$213,574 and \$301,682, respectively. However, based upon expenses being charged to several funds, it was apparent the District intended to recover the cost of risk financing activities from other funds and to allocate charges accordingly. Therefore, the District did not properly establish and operate their self-insurance program in accordance with the above requirements

This weakness caused material non-compliance with the Ohio Revised Code and could lead to a loss of accountability over the self-insurance program as well as possible material errors in the financial statements.

We recommend that the District establish an internal service fund by formal resolution of the Board. We also recommend that all self-insurance activity be recorded in that internal service fund.

**Official’s Response:** This District has been self-funded for the past three years. We were not aware that an Internal Service Fund was required as this issue was never addressed in previous audits. We are currently working with our A-Site, CONNECT, to establish an Internal Service Fund for the 2019-2020 school year.



**EAST CLEVELAND CITY SCHOOL DISTRICT  
CUYAHOGA COUNTY**

**SCHEDULE OF FINDINGS  
2 CFR § 200.515  
JUNE 30, 2018  
(CONTINUED)**

**2. Errors in Financial Reporting**

<i>Finding Number</i>	2018-002
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**MATERIAL WEAKNESS**

In our audit engagement letter, as required by AU-C Section 210, *Terms of Engagement*, paragraph .06, management acknowledged its responsibility for the preparation and fair presentation of their financial statements; this responsibility includes designing, implementing and maintaining internal control relevant to preparing and fairly presenting financial statements free from material misstatement, whether due to fraud or error as discussed in AU-C Section 210 paragraphs .A14 & .A16. Governmental Accounting Standards Board (GASB) Cod. 1100 paragraph .101 states a governmental accounting system must make it possible both: (a) to present fairly and with full disclosure the funds and activities of the governmental unit in conformity with generally accepted accounting principles, and (b) to determine and demonstrate compliance with finance-related legal and contractual provisions.

A review of the financial report filed disclosed the following adjustments and items that were corrected:

- The financial report excluded a Statement of Fund Net Position, Statement of Revenues, Expenses and Changes in Fund Net Position and a Statement of Cash Flows for an internal service fund. This included revenues of \$4,988,792, expenses of \$4,569,692, cash with fiscal agents of \$923,854 and claims liabilities of \$433,735.
- Due to numerous prior years' uncorrected errors in advances to and from the General Fund to other District Funds and errors in the associated interfund receivables and payables, a restatement of opening equity was required to the General and Other Governmental Funds in the amounts of \$1,144,000 and \$(1,144,000), respectively. In addition, due to this restatement and other immaterial current year errors, we noted the following adjustments to year end interfund receivables and interfund payables:

Fund	Account	Amount
General	Interfund Receivable	\$436,897
General	Interfund Payable	\$(692,344)
Title I	Interfund Receivable	\$(116,753)
Title I	Interfund Payable	\$20,154
Other Governmental Funds	Interfund Receivable	(575,591)
Other Governmental Funds	Interfund Payable	416,743

**EAST CLEVELAND CITY SCHOOL DISTRICT  
CUYAHOGA COUNTY**

**SCHEDULE OF FINDINGS  
2 CFR § 200.515  
JUNE 30, 2018  
(CONTINUED)**

These weaknesses increase the risk the financial statements and/or notes could become materially misstated and not be detected or prevented in a timely manner. Further, these weaknesses may hinder management's ability to make sound decisions based upon existing financial information.

We recommend that the controls be established to ensure the accuracy and reporting of the District's financial statements and notes.

**Official's Response:** As discussed with our State Auditors this concern involves at least three previous fiscal years and two former Treasurers. This concern is being reviewed and hopefully resolved after further research has taken place and a cause is determined.



# EAST CLEVELAND CITY SCHOOLS

Ms. Diana C. Whitt, *Treasurer/CFO*  
 1843 Stanwood Road • East Cleveland, Ohio 44112  
[dwhitt@eastclevelandschools.org](mailto:dwhitt@eastclevelandschools.org)  
 (216) 268-6587 • Fax (216) 268-6268

**SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS**  
 2 CFR 200.511(b)  
 JUNE 30, 2018

Finding Number	Finding Summary	Status	Additional Information
2017-001	Unallowable Transfers from Restricted Funds to General Fund	Corrective Action taken and finding is fully corrected	
2017-002	Bank and Investment Reconciliation Errors from Bank to Book	Corrective Action taken and finding is partially corrected	Only immaterial instances of non-compliance noted during audit period.
2017-003	Material Non-Compliance Appropriations Exceeding Total Estimated Resources	Corrective Action taken and finding is partially corrected	Only immaterial instances of non-compliance noted during audit period.
2017-004	Material Non-Compliance Expenditures Plus Encumbrances In Excess of Appropriations	Corrective Action taken and finding is partially corrected	Only immaterial instances of non-compliance noted during audit period.
2017-005	Material Non-Compliance Negative Cash Fund Balances	Corrective Action taken and finding is fully corrected.	
2017-006	Material Weakness and Material Non-Compliance Suspension and Debarment	Corrective Action taken and finding is fully corrected	
2017-007	Material Weakness and Material Non-Compliance Liquidation of Advances with the Required Time Frame	Corrective Action taken and finding is fully corrected	

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# EAST CLEVELAND CITY SCHOOLS

Ms. Diana C. Whitt, *Treasurer/CFO*  
1843 Stanwood Road • East Cleveland, Ohio 44112  
[dwhitt@eastclevelandschools.org](mailto:dwhitt@eastclevelandschools.org)  
(216) 268-6587 • Fax (216) 268-6268

**CORRECTIVE ACTION PLAN**  
**2 CFR § 200.511(c)**  
**JUNE 30, 2018**

<b>Finding Number</b>	<b>Planned Corrective Action</b>	<b>Anticipated Completion Date</b>	<b>Responsible Contact Person</b>
2018-001	We are currently working our A-site (Connect) to establish an Internal Service Fund	6/30/2019	Diana C. Whitt
2018-002	Treasurer has been unable to correct as this occurred beginning FY2015 through FY2017 under a different Treasurer. The State Auditors are working with the Treasurer.	6/30/2019	Diana C. Whitt

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# OHIO AUDITOR OF STATE KEITH FABER



**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, 2019**