



Rea & associates *a brighter way*

Willoughby-Eastlake City School District
Lake County, Ohio

Audited Financial Statements

For the Fiscal Year Ended
June 30, 2014



Dave Yost • Auditor of State

Board of Education
Willoughby-Eastlake City School District
37047 Ridge Road
Willoughby, OH 44094

We have reviewed the *Independent Auditor's Report* of the Willoughby-Eastlake City School District, Lake County, prepared by Rea & Associates, Inc., for the audit period July 1, 2013 through June 30, 2014. Based upon this review, we have accepted these reports in lieu of the audit required by Section 117.11, Revised Code. The Auditor of State did not audit the accompanying financial statements and, accordingly, we are unable to express, and do not express an opinion on them.

Our review was made in reference to the applicable sections of legislative criteria, as reflected by the Ohio Constitution, and the Revised Code, policies, procedures and guidelines of the Auditor of State, regulations and grant requirements. The Willoughby-Eastlake City School District is responsible for compliance with these laws and regulations.

A handwritten signature in cursive script that reads "Dave Yost".

Dave Yost
Auditor of State

May 4, 2015

This page intentionally left blank.

Willoughby-Eastlake City School District
Lake County, Ohio
Table of Contents
June 30, 2014

	<i>Page</i>
Independent Auditor’s Report.....	1
Management’s Discussion and Analysis.....	5
Government-Wide Financial Statements:	
Statement of Net Position	14
Statement of Activities.....	15
Fund Financial Statements:	
Balance Sheet – Governmental Funds	16
Reconciliation of Total Governmental Fund Balances to Net Position of Governmental Activities	17
Statement of Revenues, Expenditures and Changes in Fund Balances – Governmental Funds	18
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances of Governmental Funds to the Statement of Activities	19
Statement of Revenues, Expenditures and Changes in Fund Balance – Budget (Non-GAAP Basis) and Actual – General Fund	20
Statement of Fund Net Position – Proprietary Fund.....	21
Statement of Revenues, Expenses and Changes in Fund Net Position – Proprietary Fund.....	22
Statement of Cash Flows – Proprietary Fund	23
Statement of Fiduciary Net Position – Fiduciary Funds.....	24
Statement of Changes in Fiduciary Net Position – Private Purpose Trust Fund	25
Notes to the Basic Financial Statements.....	26
Independent Auditor’s Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards.....	57
Independent Auditor’s Report on Compliance for Each Major Federal Program and Report on Internal Control over Compliance Required by OMB Circular A-133.....	59
Schedule of Expenditures of Federal Awards.....	62
Notes to Schedule of Expenditures of Federal Awards	64
Schedule of Findings and Questioned Costs.....	65
Schedule of Prior Audit Findings	67

This page intentionally left blank.

December 29, 2014

To the Board of Education
Willoughby-Eastlake City School District
Lake County, Ohio
37047 Ridge Road
Willoughby, OH 44094

Independent Auditor's Report

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 Willoughby-Eastlake City School District, Lake County, Ohio, (the School District) as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the School District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the Willoughby-Eastlake City School District, Lake County, Ohio, as of June 30, 2014, and the respective changes in financial position and, where applicable, cash flows thereof and the respective budgetary comparison for the general fund for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of a Matter

As described in Note 2 to the financial statements, during fiscal year 2014, the School District adopted new accounting guidance in Governmental Accounting Standards Board (GASB) Statement No. 65, "Items Previously Reported as Assets and Liabilities"; and as a result restated their June 30, 2013 net position of governmental activities due to a reclassification of debt issuance costs as an expense in the period incurred rather than amortizing over the life of the debt. Net position was also restated due to the re-valuation of certain capital assets. Our opinion is not modified with respect to these matters.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the *management's discussion and analysis* on pages 5-13 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the School District's basic financial statements. The *schedule of expenditures of federal awards*, as required by *Office of Management and Budget Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations* is presented for purposes of additional analysis and is not a required part of the basic financial statements.

The *schedule of expenditures of federal awards* is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements.

Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the *schedule of expenditures of federal awards* is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated December 29, 2014, on our consideration of the School District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion 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 School District's internal control over financial reporting and compliance.

Hea & Associates, Inc.

Medina, Ohio

This page intentionally left blank

Willoughby-Eastlake City School District
Lake County, Ohio
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2014

The discussion and analysis of the Willoughby-Eastlake 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, 2014. The intent of this discussion and analysis is to look at the School District's performance as a whole; readers should also review the notes to the basic financial statements and financial statements to enhance their understanding of the School District's financial performance.

Financial Highlights

Key financial highlights for 2014 are as follows:

- Net position increased \$467,064, which represents a 22 percent increase from 2013.
- Capital assets increased \$12,740,082 during fiscal year 2014.
- During the year, outstanding debt increased from \$31,319,000 to \$43,785,000 due to additional borrowing by the School District.

Using this Annual Report

This annual report consists of a series of financial statements and notes to those statements. The statements are organized so the reader can understand the Willoughby-Eastlake City School District as a whole 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 Willoughby-Eastlake City School District, the general fund and building fund are by far the most significant funds.

Reporting the School District as a Whole

Statement of Net Position and the Statement of Activities

While the basic financial statements contain the large number of 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 question, "How did we do financially during fiscal year 2014?" The *Statement of Net Position* and the *Statement of Activities* answer this question. These statements include all 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 takes into account all of the current year's revenues and expenses regardless of when cash is received or paid.

Willoughby-Eastlake City School District
Lake County, Ohio
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2014

These two statements report the School District's net position and changes in net position. This 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 causes of this change may be the result of many factors, some financial, some not. Non-financial factors include the School District's property tax base, current property tax laws in Ohio which restrict revenue growth, facility conditions, required educational programs, and other factors.

In the *Statement of Net Position* and the *Statement of Activities*, Governmental Activities include the School District's programs and services, including instruction, support services, extracurricular activities, and operation of non-instructional services, i.e., food service operations.

Reporting the School District's Most Significant Funds

Fund Financial Statements

The fund financial statements begin on page 16. 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, these fund financial statements focus on the School District's most significant funds. The School District's major governmental funds are the general fund and building fund.

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

Proprietary Fund The School District maintains two types of proprietary funds. Internal service funds are an accounting device used to accumulate and allocate costs internally among the School District's various functions. The School District uses an internal service fund to account for its health insurance benefits and warehouse service programs. Because this service predominately benefits governmental functions, it has been included within the governmental activities in the government-wide financial statements. The proprietary fund financial statements begin on page 21.

Reporting the School District's Fiduciary Responsibilities

The School District is the trustee, or fiduciary, for some of its scholarship and foundation programs. This activity is presented as a private purpose trust fund. The School District also acts in a trustee capacity as an agent for individuals, private organizations, other governmental units and/or other funds. These activities are reported in agency funds. The School District's fiduciary activities are reported in separate Statements of Fiduciary Net Position and Changes in Fiduciary Net Position on pages 24 and 25. These activities are excluded from the School District's other financial statements because the assets cannot be utilized by the School District to finance its operations.

Willoughby-Eastlake City School District
Lake County, Ohio
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2014

The School District as a Whole

Recall that the Statement of Net Position provides the perspective of the School District as a whole. Table 1 provides a summary of the School District's net position for 2014 compared to 2013:

Table 1
Net Position

	Governmental Activities	
	2014	Restated 2013
Assets		
Current and Other Assets	\$ 91,137,344	\$ 87,651,976
Capital Assets	40,878,821	28,138,739
<i>Total Assets</i>	132,016,165	115,790,715
Liabilities		
Other Liabilities	12,580,897	13,487,856
Long-Term Liabilities	57,462,433	45,529,027
<i>Total Liabilities</i>	70,043,330	59,016,883
Deferred Inflows of Resources	59,392,297	54,660,358
Net Position		
Net Investment in Capital Assets	13,591,919	13,357,853
Restricted	4,407,576	4,579,956
Unrestricted	(15,418,957)	(15,824,335)
<i>Total Net Position</i>	\$ 2,580,538	\$ 2,113,474

At year end, capital assets represented 31 percent of total assets. Capital assets include land, buildings and improvements, furniture and equipment, vehicles and construction in progress. Net investment in capital assets was \$13,591,919 at June 30, 2014. These capital assets are used to provide services to students and are not available for future spending. Although the School District's net investment in capital assets is reported net of related debt, it should be noted that the resources to repay the debt must be provided from other sources, since capital assets may not be used to liquidate these liabilities.

A portion of the School District's net position, \$4,407,576, represents resources that are subject to external restrictions on how they may be used. The balance of government-wide unrestricted net position was a deficit of \$15,418,957.

Current and other assets increased by \$3,485,368 in fiscal year 2014. The majority of this increase is related to unspent debt proceeds for Certificates of Participation issued in fiscal year 2014. Capital assets increased by \$12,740,082 due to additions and improvements within the School District.

Willoughby-Eastlake City School District
Lake County, Ohio
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2014

Other liabilities decreased \$906,959, with the most significant decreases in contracts payable, retainage payable and accounts payable. The decrease in contract and retainage payables is due to the completion of several projects. The decrease in accounts payable can be attributable to the School District paying bills in a timely manner. Long term liabilities increased due to additional debt in fiscal year 2014.

Table 2 shows the changes in net position for fiscal years 2014 and 2013.

Table 2
Changes in Net Position

	Governmental Activities	
	2014	2013 *
Revenues		
<i>Program Revenues:</i>		
Charges for Services	\$ 3,350,372	\$ 4,200,293
Operating Grants	5,752,847	6,552,992
Total Program Revenues	9,103,219	10,753,285
<i>General Revenues:</i>		
Property Taxes	59,609,285	58,303,205
Grants and Entitlements Not Restricted	26,159,565	24,156,528
Other	770,297	753,785
Total General Revenues	86,539,147	83,213,518
Total Revenues	95,642,366	93,966,803
Program Expenses		
Instruction:		
Regular	43,073,614	44,738,041
Special	4,403,737	3,357,872
Vocational	520,654	58,072
Adult/Continuing	630,891	581,890
Student Intervention Services	168,773	6,298
Other	185,902	470,101
Support Services:		
Pupils	5,282,466	6,555,076
Instructional Staff	7,974,388	3,157,556
Board of Education	59,782	198,363
Administration	5,138,349	7,686,021
Fiscal	2,096,245	1,714,133
Business	635,040	634,278
Operation and Maintenance of Plant	7,714,098	13,222,691
Pupil Transportation	7,959,219	7,841,841
Central	2,221,694	2,337,846
Operation of Non-Instructional Services:		
Food Service Operations	2,040,380	2,076,165
Community Services	810,662	1,111,705
Other	2,024	0
Extracurricular Activities	1,910,681	1,968,807
Debt Service:		
Interest and Fiscal Charges	1,915,289	1,430,605
Issuance Costs	431,414	0
Total Expenses	95,175,302	99,147,361
Increase (Decrease) in Net Position	\$ 467,064	\$ (5,180,558)

Willoughby-Eastlake City School District
Lake County, Ohio
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2014

*Certain reclassifications were made for comparability.

Operation and maintenance of plant decreased by \$5,508,593, primarily due to the timing of an energy conservation project which was not capitalized. The majority of the project expenditures occurred in fiscal year 2013, with the final completion in fiscal year 2014. Fluctuations between support services pupils and instructional staff expenses can be attributed to re-coding of expenses in accordance with the revised expenditure standards approved by the State Board of Education on December 11, 2012. The expenditure standards revisions addressed operating expenditures and classroom instruction versus non-classroom expenditures. Total expenses decreased by \$3,972,059 due to health insurance holidays in fiscal 2014 and the completion of construction projects in fiscal year 2013.

Charges for services decreased \$849,921 in fiscal year 2014. This decrease is primarily due to the School District outsourcing its latchkey program.

The Statement of Activities shows the cost of program services and the charges for services and grants 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
Governmental Activities

	Total Cost of Service		Net Cost of Service	
	2014	2013 *	2014	2013 *
Instruction:				
Regular	\$ 43,073,614	44,738,041	\$ 41,468,328	\$ 43,139,551
Special	4,403,737	3,357,872	2,761,891	1,232,221
Vocational	520,654	58,072	444,241	(24,882)
Adult/Continuing	630,891	581,890	105,200	(181,824)
Student Intervention Services	168,773	6,298	168,773	6,298
Other	185,902	470,101	94,378	470,101
Support Services:				
Pupils	5,282,466	6,555,076	4,782,665	6,055,023
Instructional Staff	7,974,388	3,157,556	7,556,064	2,399,994
Board of Education	59,782	198,363	59,782	198,363
Administration	5,138,349	7,686,021	5,021,947	7,686,021
Fiscal	2,096,245	1,714,133	2,096,245	1,714,133
Business	635,040	634,278	635,040	634,278
Operation and Maintenance of Plant	7,714,098	13,222,691	7,714,098	12,860,403
Pupil Transportation	7,959,219	7,841,841	7,797,491	7,471,967
Central	2,221,694	2,337,846	2,165,353	2,327,046
Operation of Non-Instructional Services:				
Food Service Operations	2,040,380	2,076,165	(201,070)	(467,756)
Community Services	810,662	1,111,705	178,558	289,074
Other	2,024	0	2,024	0
Extracurricular Activities	1,910,681	1,968,807	1,507,217	1,497,109
Debt Service:				
Interest and Fiscal Charges	1,915,289	1,430,605	1,282,444	1,086,956
Issuance Costs	431,414	0	431,414	0
Total Expenses	\$ 95,175,302	\$ 99,147,361	\$ 86,072,083	\$ 88,394,076

Willoughby-Eastlake City School District
Lake County, Ohio
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2014

* 2013 was not restated for changes in fund structure noted in Note 2Q. These activities are deemed insignificant and would not impact the entity-wide analysis.

The dependence upon general revenues for governmental activities is apparent. Over 90 percent of governmental activities are supported through taxes and other general revenues; such revenues are 90 percent of total governmental revenues. The community, as a whole, is by far the primary support for the School District students.

Governmental Funds

Information about the School District's major funds starts on page 16. These funds are accounted for using the modified accrual basis of accounting. All governmental funds had total revenues of \$97,235,313 and expenditures of \$108,106,084 for fiscal year 2014.

The general fund's net change in fund balance for fiscal year 2014 was an increase of \$2,304,176. This increase is mainly due to decreased expenditures related to additional health insurance holidays in fiscal 2014.

The fund balance of the building fund decreased by \$1,488,586. This decrease was caused by construction costs to fund the completion of improvements to South High School, as compared to when resources became available.

General Fund Budgeting Highlights

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

During the course of fiscal year 2014, the School District did amend its general fund budget a few times. The School District uses site-based budgeting and budgeting systems are designed to tightly control total site budgets but provide flexibility for site management

For the general fund, actual budget basis revenue of \$88,714,097 was \$3,296,455 less than the final budget basis revenue of \$92,010,552. This is due to intergovernmental revenue being over budgeted. For the general fund, original budget basis revenue of \$83,986,169 was \$8,024,383 lower than the final budget basis revenue. The majority of this difference was due to an underestimation of intergovernmental revenue.

Final expenditure appropriations of \$80,963,863 were \$538,696 higher than the actual expenditures of \$80,425,167, primarily within capital outlay.

Willoughby-Eastlake City School District
Lake County, Ohio
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2014

Capital Assets and Debt Administration

Capital Assets

At the end of fiscal year 2014, the School District had \$40,878,821 invested in capital assets. Table 4 shows fiscal year 2014 balances compared with 2013.

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

	Governmental Activities	
	2014	Restated 2013
Land	\$ 934,224	\$ 560,374
Construction in Progress	731,281	4,891,366
Buildings and Building Improvements	37,701,666	20,834,128
Furniture and Equipment	574,735	628,938
Vehicles	936,915	1,223,933
<i>Totals</i>	\$ 40,878,821	\$ 28,138,739

The \$12,740,082 increase in capital assets was attributable to additional purchases exceeding current year depreciation and disposals. The School District completed the additions to South High School and Edison Elementary during fiscal year 2014 and is in the process of renovating the North High School's grandstand, ticket booth and lockers. In fiscal year 2014 the School District also purchased the Eaton building. See Note 8 for more information about the capital assets of the School District.

Debt

At June 30, 2014, the School District had \$43,785,000 in debt outstanding. See Note 14 and 15 for additional details. Table 5 summarizes notes and bonds outstanding. In fiscal year 2014 the School District issued \$13,270,000 in new debt.

Table 5
Outstanding Debt at Year End

	Governmental Activities	
	2014	2013
QSCB Tax Anticipation Notes	\$ 8,625,000	\$ 8,625,000
2012 Limited Tax General Obligation	4,320,000	4,320,000
Conservation Improvement Bonds	8,080,000	8,589,000
Tax Exempt Certificates of Participation	9,785,000	9,785,000
Certificates of Participation	12,975,000	0
<i>Total</i>	\$ 43,785,000	\$ 31,319,000

Willoughby-Eastlake City School District
Lake County, Ohio
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2014

Current Issues

The Board of Education and administration have implemented fiscal management disciplines that utilize a variety of formal plans to ensure financial stability. They are working within the five-year financial forecast, the five-year capital repair and renovation plan, and a five-year enrollment projection analysis. The School District projects it has the necessary revenue base to support current and future program levels throughout the five year forecast reporting period.

The downturn in the economy over the last several years has put pressure on both State and Local School District budgets. Despite the downturn the local tax base has since stabilized, and the School District expects flat to very modest increases in property tax revenue.

As currently written, the state funding formula requires that community (charter) schools receive their funding through monthly deductions from school district funding allocations. For fiscal year 2014, the State deducted \$1,368,487 from the School District's funding and redirected it to the various local community (charter) schools.

Just as there have been revenue pressures, the School District has also had to contend with rising costs. One of the more significant cost increases the School District has had to contend with, outside of unfunded state mandates, has been health care. The School District, like all other employers, has been impacted by the continuing national trend of rapidly escalating employee benefit costs due to the Affordable Care Act. In fiscal year 2015, for example, the School District will be responsible for making a \$101,810 tax payment to the Federal Government. This represents an additional 1.5 percent increase in employer provided plan costs, not including the 11 percent increase the School District is projecting for future employee plan costs.

The current fiscal plan recognizes the following open issues that must be addressed within the next five years:

- Judicial or legislative action on school funding reform
- Funding of the School District technology plan
- Development and funding of a technology replacement schedule
- Funding the educational improvement plan
- Updating the five-year forecast.

The School District has committed itself to a fiscal discipline based on long-term plans as well as commitment to full disclosure of financial information and utilization of the highest standards of financial reporting. The School District implemented state software and budgets for all cost centers in fiscal year 2014. The School District's commitment to improve fiscal management has led to many budgeting, reporting and internal control enhancements and improvements.

Willoughby-Eastlake City School District
Lake County, Ohio
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2014

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 Bill Parkinson, Treasurer, Willoughby-Eastlake City School District, 37047 Ridge Road, Willoughby, OH 44094, or by email at bill.parkinson@weschools.org.

Willoughby-Eastlake City School District
Lake County, Ohio
Statement of Net Position
June 30, 2014

	Governmental Activities
Assets	
Equity in Pooled Cash and Investments	\$ 23,480,481
Cash and Investments Held with Trustee	3,226,571
Receivables:	
Accounts	29,437
Intergovernmental	1,011,152
Property Taxes	63,389,703
Nondepreciable Capital Assets	1,665,505
Depreciable Capital Assets (Net)	39,213,316
<i>Total Assets</i>	\$ 132,016,165
Liabilities	
Accounts Payable	239,632
Accrued Wages and Benefits	7,698,912
Contracts Payable	471,932
Intergovernmental Payable	2,809,357
Retainage Payable	87,328
Matured Compensated Absences Payable	9,271
Accrued Interest Payable	597,619
Claims Payable	666,846
Long Term Liabilities:	
Due Within One Year	2,614,109
Due In More Than One Year	54,848,324
<i>Total Liabilities</i>	70,043,330
Deferred Inflows of Resources	
Property Taxes Levied for the Next Year	59,392,297
Net Position	
Net Investment in Capital Assets	13,591,919
Restricted For:	
Capital Outlay	278,118
Debt Service	1,993,568
Other Purposes	2,135,890
Unrestricted	(15,418,957)
<i>Total Net Position</i>	\$ 2,580,538

See accompanying notes to the basic financial statements.

Willoughby-Eastlake City School District
Lake County, Ohio
Statement of Activities
For the Fiscal Year Ended June 30, 2014

	Program Revenues			Net (Expense) Revenue and Changes in Net Position
	Expenses	Charges for Services and Sales	Operating Grants, Contributions and Interest	Governmental Activities
Governmental Activities				
Instruction:				
Regular	\$ 43,073,614	\$ 1,496,136	\$ 109,150	\$ (41,468,328)
Special	4,403,737	105,485	1,536,361	(2,761,891)
Vocational	520,654	1,368	75,045	(444,241)
Adult/Continuing	630,891	272,058	253,633	(105,200)
Student Intervention Services	168,773	0	0	(168,773)
Other	185,902	48,209	43,315	(94,378)
Support Services:				
Pupils	5,282,466	0	499,801	(4,782,665)
Instructional Staff	7,974,388	0	418,324	(7,556,064)
Board of Education	59,782	0	0	(59,782)
Administration	5,138,349	116,109	293	(5,021,947)
Fiscal	2,096,245	0	0	(2,096,245)
Business	635,040	0	0	(635,040)
Operation and Maintenance of Plant	7,714,098	0	0	(7,714,098)
Pupil Transportation	7,959,219	10,251	151,477	(7,797,491)
Central	2,221,694	0	56,341	(2,165,353)
Operation of Non-Instructional Services:				
Food Service Operations	2,040,380	884,896	1,356,554	201,070
Community Services	810,662	56,110	575,994	(178,558)
Other	2,024	0	0	(2,024)
Extracurricular Activities	1,910,681	359,750	43,714	(1,507,217)
Debt Service:				
Interest and Fiscal Charges	1,915,289	0	632,845	(1,282,444)
Issuance Costs	431,414	0	0	(431,414)
Total	\$ 95,175,302	\$ 3,350,372	\$ 5,752,847	(86,072,083)

General Revenues

Property Taxes Levied for:

General Purposes	57,870,414
Capital Outlay	1,608,645
Other Purposes	130,226
Grants and Entitlements Not Restricted to Specific Programs	26,159,565
Gain on Sale of Capital Assets	60,205
Investment Earnings	(46,070)
Miscellaneous	756,162
Total General Revenues	86,539,147

Change in Net Position

467,064

Net Position Beginning of Year (Restated-See Note 2Q)

2,113,474

Net Position End of Year

\$ 2,580,538

See accompanying notes to the basic financial statements.

Willoughby-Eastlake City School District
Lake County, Ohio
Balance Sheet
Governmental Funds
June 30, 2014

	General	Building	Other Governmental Funds	Total Governmental Funds
Assets				
Equity in Pooled Cash and Investments	\$ 15,170,964	\$ 3,225,201	\$ 2,828,560	\$ 21,224,725
Cash and Investments Held with Trustee	0	638,267	2,588,304	3,226,571
Receivables:				
Accounts	28,748	0	689	29,437
Interfund	585,270	0	0	585,270
Intergovernmental	185,603	0	825,549	1,011,152
Property Taxes	61,647,237	0	1,742,466	63,389,703
<i>Total Assets</i>	<u>\$ 77,617,822</u>	<u>\$ 3,863,468</u>	<u>\$ 7,985,568</u>	<u>\$ 89,466,858</u>
Liabilities				
Accounts Payable	\$ 97,162	\$ 0	\$ 135,987	\$ 233,149
Accrued Wages and Benefits	7,207,925	0	490,987	7,698,912
Contracts Payable	0	471,932	0	471,932
Intergovernmental Payable	2,623,745	0	185,612	2,809,357
Retainage Payable	0	87,328	0	87,328
Matured Compensated Absences Payable	9,271	0	0	9,271
Interfund Payable	0	0	451,590	451,590
<i>Total Liabilities</i>	<u>9,938,103</u>	<u>559,260</u>	<u>1,264,176</u>	<u>11,761,539</u>
Deferred Inflows of Resources				
Property Taxes Levied for the Next Year	57,759,836	0	1,632,461	59,392,297
Unavailable Revenue	1,781,526	0	274,164	2,055,690
<i>Total Deferred Inflows of Resources</i>	<u>59,541,362</u>	<u>0</u>	<u>1,906,625</u>	<u>61,447,987</u>
Fund Balances				
Nonspendable	2,195	0	0	2,195
Restricted	0	3,304,208	4,852,146	8,156,354
Committed	1,820,550	0	0	1,820,550
Assigned	3,344,582	0	0	3,344,582
Unassigned	2,971,030	0	(37,379)	2,933,651
<i>Total Fund Balances</i>	<u>8,138,357</u>	<u>3,304,208</u>	<u>4,814,767</u>	<u>16,257,332</u>
<i>Total Liabilities, Deferred Inflows of Resources and Fund Balances</i>	<u>\$ 77,617,822</u>	<u>\$ 3,863,468</u>	<u>\$ 7,985,568</u>	<u>\$ 89,466,858</u>

See accompanying notes to the basic financial statements.

Willoughby-Eastlake City School District
Lake County, Ohio
Reconciliation of Total Governmental Fund Balances to
Net Position of Governmental Activities
June 30, 2014

Total Governmental Fund Balances		\$ 16,257,332
 <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.		40,878,821
Other long-term assets are not available to pay for current-period expenditures and therefore are deferred in the funds.		
Intergovernmental	\$ 229,184	
Excess Costs	185,603	
Charges and Other Fees	9,896	
Property Taxes	<u>1,631,007</u>	2,055,690
 An internal service fund is used by management to charge the costs of insurance to individual funds. The assets and liabilities of the internal service fund are included in governmental activities in the statement of net position.		 1,448,747
 In the statement of activities, interest is accrued on outstanding bonds, whereas in the governmental funds, an interest expenditure is not reported.		 (597,619)
 Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds.		
General Obligation Bonds	(8,080,000)	
Tax Anticipation Notes	(8,625,000)	
Certificates of Participation	(27,080,000)	
Early Retirement Incentive	(3,606,911)	
Healthcare Termination Benefits	(2,240,309)	
Compensated Absences	<u>(7,830,213)</u>	<u>(57,462,433)</u>
 <i>Net Position of Governmental Activities</i>		 <u><u>\$ 2,580,538</u></u>

See accompanying notes to the basic financial statements.

Willoughby-Eastlake City School District
Lake County, Ohio
Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds
For the Fiscal Year Ended June 30, 2014

	General	Building	Other Governmental Funds	Total Governmental Funds
Revenues				
Property and Other Local Taxes	\$ 59,053,324	\$ 0	\$ 1,776,577	\$ 60,829,901
Intergovernmental	25,755,087	0	6,276,831	32,031,918
Investment Income	(46,070)	0	587	(45,483)
Tuition and Fees	843,007	0	386,847	1,229,854
Extracurricular Activities	155,829	0	360,315	516,144
Rentals	248,069	0	0	248,069
Charges for Services	582,460	0	885,290	1,467,750
Contributions and Donations	158,277	0	47,016	205,293
Miscellaneous	721,351	0	30,516	751,867
Total Revenues	87,471,334	0	9,763,979	97,235,313
Expenditures				
Current:				
Instruction:				
Regular	42,583,768	0	1,281	42,585,049
Special	2,716,633	0	1,724,003	4,440,636
Vocational	514,348	0	67,925	582,273
Adult Education	0	0	630,848	630,848
Student Intervention Services	168,773	0	0	168,773
Other	189,384	0	45,160	234,544
Support Services:				
Pupils	4,848,952	0	401,126	5,250,078
Instructional Staff	7,224,622	0	445,835	7,670,457
Board of Education	59,782	0	0	59,782
Administration	5,056,575	0	191,621	5,248,196
Fiscal	2,082,376	0	23,818	2,106,194
Business	640,346	0	0	640,346
Operation and Maintenance of Plant	4,863,830	14,131	177,419	5,055,380
Pupil Transportation	7,412,425	0	166,112	7,578,537
Central	2,097,675	0	107,388	2,205,063
Extracurricular Activities	1,413,363	0	460,479	1,873,842
Operation of Non-Instructional Services:				
Food Service Operations	20,657	0	0	20,657
Community Services	109,507	0	2,025,251	2,134,758
Other	1,846	0	724,645	726,491
Capital Outlay	1,899,402	14,195,402	0	16,094,804
Debt Service:				
Principal Retirement	0	0	804,000	804,000
Interest and Fiscal Charges	0	0	1,563,962	1,563,962
Issuance Costs	0	431,414	0	431,414
Total Expenditures	83,904,264	14,640,947	9,560,873	108,106,084
Excess of Revenues Over (Under) Expenditures	3,567,070	(14,640,947)	203,106	(10,870,771)
Other Financing Sources (Uses)				
Proceeds from Sale of Capital Assets	60,205	0	0	60,205
Proceeds of Certificates of Participation	0	13,270,000	0	13,270,000
Discount on Certificates of Participation	0	(197,349)	0	(197,349)
Transfers In	0	79,710	3,352,410	3,432,120
Transfers Out	(1,323,099)	0	(2,147,264)	(3,470,363)
Total Other Financing Sources (Uses)	(1,262,894)	13,152,361	1,205,146	13,094,613
Net Change in Fund Balance	2,304,176	(1,488,586)	1,408,252	2,223,842
Fund Balances Beginning of Year	5,834,181	4,792,794	3,406,515	14,033,490
Fund Balances End of Year	\$ 8,138,357	\$ 3,304,208	\$ 4,814,767	\$ 16,257,332

See accompanying notes to the basic financial statements.

Willoughby-Eastlake City School District
Lake County, Ohio

*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, 2014*

Net Change in Fund Balances - Total Governmental Funds	\$	2,223,842
 <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 capital outlay exceeded depreciation in the current period.		
Capital Asset Additions	\$ 13,912,032	
Current Year Depreciation	<u>(1,171,950)</u>	12,740,082
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.		
Property Taxes	(1,220,617)	
Excess Costs	(117,046)	
Charges and Other Fees	9,896	
Intergovernmental	<u>(325,385)</u>	(1,653,152)
Repayment of principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net position.		
		804,000
Debt proceeds issued in the governmental funds that increase long-term liabilities in the statement of net position are not reported as revenues.		
Certificates of Participation		(13,270,000)
In the statement of activities, interest is accrued on outstanding bonds, and bond premium and gain/loss on refunding are amortized over the term of the bonds, whereas in governmental funds, an interest expenditure is reported when bonds are issued.		
Accrued Interest Payable		(153,978)
The internal service fund used by management to charge the costs of insurance to individual funds is not reported in the district-wide statement of activities. Governmental expenditures and related internal service fund revenues are eliminated. The net revenue (expense) of the internal service fund is allocated among the governmental activities.		
		(756,324)
Some expenses 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.		
Compensated Absences	600,956	
Healthcare Termination Benefits	(124,315)	
Early Retirement Incentive	<u>55,953</u>	<u>532,594</u>
<i>Change in Net Position of Governmental Activities</i>	<u>\$</u>	<u>467,064</u>

See accompanying notes to the basic financial statements.

Willoughby-Eastlake City School District
Lake County, Ohio
Statement of Revenues, Expenditures, and Changes in Fund Balance -
Budget (Non-GAAP Basis) and Actual
General Fund
For the Fiscal Year Ended June 30, 2014

	Budgeted Amounts			Variance with Final Budget Over (Under)
	Original	Final	Actual	
Revenues				
Property and Other Local Taxes	\$ 60,057,723	\$ 60,057,723	\$ 60,919,764	\$ 862,041
Intergovernmental	22,172,837	29,608,478	25,755,087	(3,853,391)
Investment Income	50,000	66,767	58,078	(8,689)
Tuition and Fees	320,238	614,041	462,054	(151,987)
Rentals	212,574	283,860	246,917	(36,943)
Charges for Services	554,410	553,920	553,903	(17)
Miscellaneous	618,387	825,763	718,294	(107,469)
<i>Total Revenues</i>	<u>83,986,169</u>	<u>92,010,552</u>	<u>88,714,097</u>	<u>(3,296,455)</u>
Expenditures				
Current:				
Instruction:				
Regular	39,173,337	39,173,337	39,118,609	54,728
Special	3,000,161	3,000,161	2,999,916	245
Vocational	422,290	422,290	410,270	12,020
Student Intervention Services	231,080	231,080	231,072	8
Other	199,550	199,550	199,436	114
Support Services:				
Pupils	4,892,505	4,892,505	4,889,907	2,598
Instructional Staff	6,051,889	6,051,889	6,049,121	2,768
Board of Education	17,820	17,820	17,810	10
Administration	4,831,822	4,831,822	4,791,967	39,855
Fiscal	2,284,043	2,284,043	2,281,385	2,658
Business	692,182	692,182	689,378	2,804
Operation and Maintenance of Plant	4,983,200	4,983,200	4,960,584	22,616
Pupil Transportation	7,654,671	7,654,671	7,649,643	5,028
Central	2,062,990	2,062,990	2,054,595	8,395
Extracurricular Activities	1,296,040	1,296,040	1,280,274	15,766
Operation of Non-Instructional Services:				
Community Services	253,491	253,491	239,870	13,621
Capital Outlay	2,916,792	2,916,792	2,561,330	355,462
<i>Total Expenditures</i>	<u>80,963,863</u>	<u>80,963,863</u>	<u>80,425,167</u>	<u>538,696</u>
<i>Excess of Revenues Over (Under) Expenditures</i>	<u>3,022,306</u>	<u>11,046,689</u>	<u>8,288,930</u>	<u>(2,757,759)</u>
Other Financing Sources (Uses)				
Proceeds from Sale of Capital Assets	51,831	69,213	60,205	(9,008)
Refund of Prior Year Expenditures	72,916	97,368	84,696	(12,672)
Refund of Prior Year Receipts	(5,100)	(5,100)	(5,100)	0
Advances In	2,589,379	3,457,725	3,007,720	(450,005)
Transfers In	3,151,305	4,208,093	2,743,605	(1,464,488)
Advances Out	(3,023,990)	(3,023,990)	(1,940,890)	1,083,100
Transfers Out	(8,373,500)	(8,373,500)	(6,621,853)	1,751,647
<i>Total Other Financing Sources (Uses)</i>	<u>(5,537,159)</u>	<u>(3,570,191)</u>	<u>(2,671,617)</u>	<u>898,574</u>
<i>Net Change in Fund Balance</i>	(2,514,853)	7,476,498	5,617,313	(1,859,185)
<i>Fund Balance Beginning of Year</i>	2,568,641	2,568,641	2,568,641	0
Prior Year Encumbrances Appropriated	2,441,950	2,441,950	2,441,950	0
<i>Fund Balance End of Year</i>	<u>\$ 2,495,738</u>	<u>\$ 12,487,089</u>	<u>\$ 10,627,904</u>	<u>\$ (1,859,185)</u>

See accompanying notes to the basic financial statements.

Willoughby-Eastlake City School District
Lake County, Ohio
Statement of Fund Net Position
Proprietary Fund
June 30, 2014

	Governmental Activities - Internal Service Fund
Assets	
<i>Current Assets</i>	
Equity in Pooled Cash and Investments	\$ 2,255,756
Liabilities	
<i>Current Liabilities</i>	
Accounts Payable	6,483
Interfund Payable	133,680
Claims Payable	666,846
<i>Total Current Liabilities</i>	807,009
Net Position	
Unrestricted	\$ 1,448,747

See accompanying notes to the basic financial statements.

Willoughby-Eastlake City School District
Lake County, Ohio
Statement of Revenues, Expenses, and Changes in Fund Net Position
Proprietary Fund
For the Fiscal Year Ended June 30, 2014

	Governmental Activities - Internal Service Fund
Operating Revenues	
Charges for Services	\$ 6,357,282
Other	2,298
<i>Total Operating Revenues</i>	6,359,580
Operating Expenses	
Fringe Benefits	18,556
Purchased Services	607,800
Materials and supplies	402,574
Claims	6,125,217
<i>Total Operating Expenses</i>	7,154,147
<i>Operating (Loss)</i>	(794,567)
Transfers In	38,243
<i>Change in Net Position</i>	(756,324)
<i>Net Position Beginning of Year</i>	2,205,071
<i>Net Position End of Year</i>	\$ 1,448,747

See accompanying notes to the basic financial statements.

Willoughby-Eastlake City School District
Lake County, Ohio
Statement of Cash Flows
Proprietary Fund
For the Fiscal Year Ended June 30, 2014

	<u>Governmental Activities - Internal Service Fund</u>
Cash Flows From Operating Activities	
Cash Received from Customers	\$ 6,358,223
Other Cash Receipts	2,298
Cash Paid for Goods and Services	(1,003,891)
Cash Paid for Employee Benefits	(18,556)
Cash Paid for Claims	(5,958,217)
<i>Net Cash Provided By (Used For) Operating Activities</i>	<u>(620,143)</u>
Cash Flows From Non-Capital Financing Activities	
Transfers from Other Funds	38,243
Advances from Other Funds	133,680
<i>Net Cash Provided By Non-Capital Financing Activities</i>	<u>171,923</u>
<i>Net (Decrease) in Cash and Investments</i>	(448,220)
<i>Cash and Investments, Beginning of Year</i>	<u>2,703,976</u>
<i>Cash and Investments, End of Year</i>	<u><u>\$ 2,255,756</u></u>
Reconciliation of Operating Income (Loss) to Net Cash (Used For) Operating Activities	
Operating (Loss)	\$ (794,567)
Adjustments:	
(Increase) Decrease in Assets:	
Accounts Receivable	941
Increase (Decrease) in Liabilities:	
Accounts Payable	6,483
Claims Payable	167,000
<i>Total Adjustments</i>	<u>174,424</u>
<i>Net Cash (Used For) Operating Activities</i>	<u><u>\$ (620,143)</u></u>

See accompanying notes to the basic financial statements.

Willoughby-Eastlake City School District
Lake County, Ohio
Statement of Fiduciary Net Position
Fiduciary Funds
June 30, 2014

	Private Purpose Trust	Agency
Assets		
Equity in Pooled Cash and Investments	\$ 148,241	\$ 175,136
Liabilities		
Accounts Payable	0	\$ 12,806
Due to Students	0	162,330
<i>Total Liabilities</i>	0	\$ 175,136
Net Position		
Held in Trust for Scholarships	\$ 148,241	

See accompanying notes to the basic financial statements.

Willoughby-Eastlake City School District
Lake County, Ohio
Statement of Changes in Fiduciary Net Position
Private Purpose Trust Fund
For the Fiscal Year Ended June 30, 2014

	Private Purpose Trust
Additions	
Gifts and Contributions	\$ 1,000
Miscellaneous	13
Investment Earnings	8
<i>Total Additions</i>	1,021
 Deductions	
Payments in Accordance with Trust Agreements	1,001
<i>Change in Net Position</i>	20
<i>Net Position Beginning of Year</i>	148,221
<i>Net Position End of Year</i>	\$ 148,241

See accompanying notes to the basic financial statements.

Willoughby-Eastlake City School District
Lake County, Ohio
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2014

Note 1 - Description of the School District and Reporting Entity

Willoughby-Eastlake City School District (the "School District") is a body politic and corporate established for the purpose of exercising the rights and privileges conveyed to it by the constitution and laws of the State of Ohio.

The School District operates under a locally elected five-member board and provides educational services as mandated by State and federal agencies. The Board controls the School District's 13 instructional facilities, staffed by 387 classified personnel, 553 certified full-time teaching personnel and 21 administrative employees to provide services to students and other community members.

The School District is located in Lake County, Ohio and includes the cities of Willoughby, Eastlake, Willoughby Hills and Willowick and the villages of Lakeline, Timberlake, and Waite Hill.

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 of the School District consists of all funds, departments, boards and agencies that are not legally separate from the School District. For Willoughby-Eastlake City School District, this includes general operations, food service and student related activities of the School District.

Non-Public Schools – Within the School District boundaries, there are various non-public schools. Current State legislation provides funding to these parochial schools. These monies are received and disbursed by the School District on behalf of the parochial school by the Treasurer of the School District, as directed by the parochial school. These transactions are reported as a governmental activity on the financial statements 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; (3) the School District is legally obligated or has otherwise assumed the responsibility to finance deficits of, or provide financial support to, the organization; or (4) 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 does not have any component units.

The School District participates in two jointly governed organizations and a related organization. These organizations are the Tri-Rivers Educational Computer Association (TRECA), the Ohio Schools Council and the Willoughby-Eastlake Public Library. These organizations are discussed in Notes 17 and 18 to the basic financial statements.

Willoughby-Eastlake City School District
Lake County, Ohio
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2014

Note 2 - Summary of Significant Accounting Policies

The basic financial statements of the School District have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting entity for establishing governmental accounting and financial reporting principles. The School District's significant accounting policies are described below.

A. Basis of Presentation

The School District's basic financial statements consist of government-wide statements, including a statement of net 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. The activity of the internal service fund is also eliminated to avoid "doubling up" revenues and expenses.

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 limitations. The comparison of direct expenses with program revenues identifies the extent to which each business segment or governmental function is self-financing or draws from the general revenues of the School District.

Fund Financial Statements During the 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. The internal service fund is presented in a single column on the face of the proprietary fund statements. Fiduciary funds are reported by type.

B. Fund Accounting

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

Willoughby-Eastlake City School District

Lake County, Ohio

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2014

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 deferred outflows of resources 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 all financial resources except those required to be accounted for in another fund. The general fund balance is available for any purpose provided it is expended or transferred according to the general laws of Ohio.

Building Fund The building fund is used to account for the receipts and expenditures related to the construction and renovations of facilities of the School District being financed through debt proceeds.

The other governmental funds of the School District account for grants and other resources to which the School District is bound to observe constraints imposed upon the use of the resources.

Proprietary Funds Proprietary funds focus on the determination of operating income, changes in net position, financial position and cash flows and are classified as either enterprise or internal service. The School District's only proprietary fund is an internal service fund.

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 utilizes an internal service fund to account for the operation of the School District's self-insurance program, for employee medical, surgical, prescription drug and dental benefits and warehouse service programs.

Fiduciary Funds 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's only trust fund is a private purpose trust fund, which accounts for several scholarship programs for students. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. The School District's agency funds account for student activities and high school reunions.

C. 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.

Willoughby-Eastlake City School District
Lake County, Ohio

Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2014

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. Like the government-wide statements, the internal service fund is accounted for on a flow of economic resources measurement focus. All assets and all liabilities associated with the operation of the fund are included on the Statement of Fund Net Position. The Statement of Revenues, Expenses, and Changes in Fund Net Position presents increases (i.e., revenues) and decreases (i.e., expenses) in net total assets. The Statement of Cash Flows provides information about how the School District finances and meets the cash flow needs of its internal service fund activity.

The private purpose trust fund is reported using the economic resources measurement focus. Agency funds do not report a measurement focus as they do not report operations.

D. Basis of Accounting

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

Revenues - Exchange and Non-Exchange Transactions Revenue resulting from exchange transactions, in which each party gives and receives essentially equal value, is recorded on the accrual basis when the exchange takes place. On a modified accrual basis, revenue is recorded in the fiscal year in which the resources are measurable and become available. Available means that the resources will be collected within the current fiscal year or are expected to be collected soon enough thereafter to be used to pay liabilities of the current fiscal year. For the School District, available means expected to be received within sixty days of the 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 6). 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 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.

Willoughby-Eastlake City School District
Lake County, Ohio
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2014

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, student fees, and rentals.

Deferred Outflows/Inflows of Resources A deferred inflow of resources is an acquisition of assets by the School District that is applicable to a future reporting period. A deferred outflow of resources is a consumption of assets by the School District that is applicable to a future reporting period.

Property taxes for which there is an enforceable legal claim as of June 30, 2014, but which were levied to finance fiscal year 2015 operations, and other revenues received in advance of the year for which they were intended to finance, have been recorded as deferred inflows of resources. Grants and entitlements received before the eligibility requirements are met and delinquent property taxes due at June 30, 2014, are recorded as deferred inflows of resources in governmental funds.

On governmental fund financial statements, receivables that will not be collected within the available period have been reported as a deferred inflow of resources.

On the accrual basis of accounting, unamortized deferred charges on debt refunding are reported as a deferred outflow of resources. 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.

Expenses/Expenditures On the accrual basis of accounting, expenses are recognized at the time they are incurred. The fair value of donated commodities used during the year is reported in the operating statement as an expense with a like amount reported as intergovernmental revenue.

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

E. Budgetary Process

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 sets 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 Treasurer has been given the authority to allocate appropriations to the function and object levels within each fund. Budgetary statements are presented beyond the legal level of control for information purposes only.

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

Willoughby-Eastlake City School District
Lake County, Ohio
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2014

amended certificate that was in effect at the time the final appropriations were passed by the Board of Education.

The appropriation resolution is subject to amendment by the Board throughout the 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 years. The amounts reported as the final budgeted amounts represent the final appropriation amounts passed by the Board during the fiscal year.

F. Cash and Investments

To improve cash management, all cash received by the School District is pooled. Monies for all funds, including proprietary 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 investments.”

During fiscal year 2014, investments were limited to Federal Farm Credit Bank notes, Federal National Mortgage Association notes, Federal Home Loan Bank notes, Federal Home Loan Mortgage Association notes and STAROhio.

STAROhio is an investment pool managed by the State Treasurer’s Office which allows governments within the State to pool their funds for investment purposes. STAROhio is not registered with the SEC as an investment company, but does operate in a manner consistent with Rule 2a7 of the Investment Company Act of 1940. Investments in STAROhio are valued at STAROhio’s share price which is the price the investment could be sold for on June 30, 2014.

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

Following Ohio statutes, the Board of Education has, by resolution, specified the funds to receive an allocation of interest earnings (including fair market value adjustments for investments). For the fiscal year 2014, the School District reported a total of (\$46,070) interest revenue, of which (\$19,222) was reported in the General Fund.

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 “equity in pooled cash and investments.” Investments with an original maturity of more than three months that are not made from the pool are reported as “investments.”

G. Capital Assets

The School District’s only capital assets are general capital assets.

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

Willoughby-Eastlake City School District
Lake County, Ohio
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2014

capitalization threshold of \$5,000. 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 the asset's life are not.

All reported capital assets except land and construction in progress 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	Estimated Lives
Buildings and Improvements	20-99 Years
Furniture and Equipment	10-15 years
Vehicles	15 Years

H. 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.

I. 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 School District will compensate the employees for the benefits through paid time off or some other means. The School District records a liability for accumulated unused vacation time when earned for all employees with more than one year of service.

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

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

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

J. 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 and 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. Bonds are recognized as a liability on the fund financial statements when due.

Willoughby-Eastlake City School District
Lake County, Ohio
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2014

K. Net Position

Net position represents the difference between assets and deferred outflows of resources and liabilities and deferred inflows of resources. 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. Deferred outflows of resources and deferred inflows of resources that are attributable to the acquisition, construction or improvement of those assets or related debt also should be included in this component of net position. Net position is reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the School District or through external restrictions imposed by creditors, grantors, or laws or regulations of other governments. At June 30, 2014, none of the School District's net position was restricted by enabling legislation. Net position restricted for other purposes include instructional activities and grants.

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

L. Fund Balance

In accordance with Governmental Accounting Standards Board Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, the School District classifies its fund balance based on the purpose for which the resources were received and the level of constraint placed on the resources. 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. It also includes the long-term amount of loans receivable, as well as property acquired for resale, unless the use of the proceeds from the collection of those receivables or from the sale of those properties is restricted, committed or assigned.

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

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

Assigned – Amounts in the assigned fund balance classification are intended to be used by the School District for specific purposes but do not meet the criteria to be classified as restricted or committed. In governmental funds other than the general fund, assigned fund balance represents the remaining amount that is not restricted or committed. In the general fund, assigned amounts represent intended uses established by policies of the School District Board of Education. The Board of Education has by resolution authorized the Treasurer to assign fund balance. The Board of Education may also assign fund balance as it does when appropriating fund balance to cover a gap between estimated revenue and appropriations in the subsequent year's appropriated budget.

Willoughby-Eastlake City School District
Lake County, Ohio
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2014

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

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

M. Operating Revenues and Expenses

Operating revenues are those revenues that are generated directly from the primary activity of the proprietary fund. For the School District, these revenues are self-insurance programs. Operating expenses are necessary costs incurred to provide the goods or services that are the primary activity of the fund. All revenues and expenses not meeting these definitions are reported as non-operating.

N. Interfund Activity

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.

O. Extraordinary and Special Items

Extraordinary items are transactions or events that are both unusual in nature and infrequent in occurrence. Special items are transactions or events that are within the control of the Board of Education and that are either unusual in nature or infrequent in occurrence. Neither type of transaction occurred during fiscal year 2014.

P. 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.

Q. Implementation of New Accounting Policies

For the fiscal year ended June 30, 2014, the School District has implemented Governmental Accounting Standards Board (GASB) Statement No. 65, *Items Previously Reported as Assets and Liabilities*, GASB Statement No. 66, *Technical Corrections—2012—an amendment of GASB Statements No. 10 and No. 62*, and GASB Statement No. 70, *Accounting and Financial Reporting for Nonexchange Financial Guarantees*.

Willoughby-Eastlake City School District
Lake County, Ohio
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2014

GASB Statement No. 65 properly classifies certain items that were previously reported as assets and liabilities as deferred outflows of resources or deferred inflows of resources or recognizes certain items that were previously reported as assets and liabilities as outflows of resources (expenses or expenditures) or inflows of resources (revenues). The implementation of GASB Statement No. 65 resulted in prior year debt issuance costs being expensed rather than being amortized. The School District also had a re-valuation of vehicles and furniture and equipment by an appraisal company. The re-valuation was unrelated to GASB Statement No. 65. These two events had the following effect on net position as previously reported:

	Governmental Activities
Net Position Previously Reported June 30, 2013	\$ 4,215,888
Adjustments:	
Depreciable Capital Assets (Net)	(334,217)
Accumulated Depreciation	(1,089,770)
Unamortized Debt Issuance Costs	(678,427)
Restated Net Position at July 1, 2013	\$ 2,113,474

GASB Statement No. 66 resolves conflicting accounting and financial reporting guidance that could diminish the consistency of financial reporting and thereby enhance the usefulness of the financial reports. The implementation of GASB Statement No. 66 did not have an effect on the financial statements of the School District.

GASB Statement No. 70 improves comparability of financial statements by requiring consistent reporting and specifying information required to be disclosed for extending and receiving nonexchange financial guarantees. The implementation of GASB Statement No. 70 did not have an effect on the financial statements of the School District.

Note 3 – Fund Deficits

The following funds had a deficit fund balance as of June 30, 2014:

Other Governmental Funds:	
Preschool at Risk	1,750
Title I Disadvantaged Children	6,625
Title VI-B	28,244
Title III	579
Preschool Grant	181

The deficit balances resulted from adjustments for accrued liabilities. The general fund is liable for any deficits in these funds and will provide transfers when cash is required, not when accruals occur.

Willoughby-Eastlake City School District
Lake County, Ohio
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2014

Note 4 - 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 Balance - Budget (Non-GAAP Basis) and Actual is presented on the budgetary basis for the general fund. The major differences between the budget basis and GAAP basis are:

1. Revenues are recorded when received in cash (budget) as opposed to when susceptible to accrual (GAAP).
2. Expenditures/expenses are recorded when paid in cash (budget) as opposed to when the liability is incurred (GAAP).
3. Encumbrances are treated as expenditures (budget) rather than as a component of assigned, committed or restricted fund balance (GAAP).
4. Some funds are included in the general fund (GAAP), but have separate legally adopted budgets.

The following table summarizes the adjustments necessary to reconcile the GAAP basis statement to the budgetary basis statement on a fund type basis for the general fund:

Net Change in Fund Balance

	General **
GAAP Basis	\$ 2,304,176
Net Adjustment for Revenue Accruals	10,655,750
Net Adjustment for Expenditure Accruals	(5,243,878)
Adjustment for Encumbrances	(2,169,570)
Funds Budgeted Elsewhere **	70,835
Budget Basis	\$ 5,617,313

**As part of Governmental Accounting Standards Board Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, certain funds that are legally budgeted in separate special revenue funds are considered part of the general fund on a GAAP basis. This includes special trust, uniform school supplies, special services, community education, rotary services, public school support, latchkey and termination benefits.

Note 5 - Deposits and Investments

State statute classifies monies held by the School District into three categories.

Active deposits are public deposits necessary to meet current demands on the treasury. Such 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.

Willoughby-Eastlake City School District
Lake County, Ohio

Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2014

Inactive monies are public deposits that the School District's Board of Education 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.

Protection of School District's deposits is provided by the Federal Deposit Insurance Corporation (FDIC), by eligible securities pledged by the financial institution as security for repayment, by surety company bonds deposited with the Treasurer by the financial institution or by a single collateral pool established by the financial institution to secure the repayment of all public monies deposited with the institution.

Interim monies may be deposited or invested in the following securities:

1. United States Treasury Notes, Bills, Bonds, 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 obligations or securities issued by any federal government agency or instrumentality, including but not limited to, the Federal National Mortgage Association, Federal Home Loan Bank, Federal Farm Credit Bank, Federal Home Loan Mortgage Corporation, Government National Mortgage Association, and Student Loan Marketing Association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;
3. Written repurchase agreements in the securities listed above provided that 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 to market daily, and that the term of the agreement must not exceed thirty days;
4. Bonds and other obligations of the State of Ohio;
5. No-load money market mutual funds consisting exclusively of obligations described in division (1) or (2) of this section and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions;
6. The State Treasurer's investment pool (STAROhio and STAR Plus);
7. Certain bankers' acceptances and commercial paper notes for a period not to exceed one hundred and eighty days in an amount not to exceed 25 percent of the interim moneys available for investment at any one time; and,
8. Under limited circumstances, corporate debt interests rated in either of the two highest rating classifications by at least two nationally recognized rating agencies.

Willoughby-Eastlake City School District
Lake County, Ohio
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2014

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 qualified trustee or, if the securities are not represented by a certificate, upon receipt of confirmation of transfer from the custodian.

According to State law, public depositories must give security for all public funds on deposit. These institutions may either specifically collateralize individual accounts in lieu of amounts insured by FDIC, or may pledge a pool of government securities valued at least 105 percent of the total value of uninsured public monies on deposit at the institution. Repurchase agreements must be secured by the specific government securities upon which the repurchase agreements are based. These securities must be obligations of or guaranteed by the United States and mature or be redeemable within 5 years of the date of the related repurchase agreement. State law does not require security for public deposits and investments to be maintained in the School District's name. During fiscal year 2014, the School District and public depositories complied with the provisions of these statutes.

Deposits with Financial Institutions

Custodial credit risk 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 possession of an outside party. The School District has no deposit policy for custodial risk beyond the requirements of State statute. Ohio law requires that deposits be either insured or be protected by eligible securities pledged to and deposited either with the School District or a qualified trustee by the financial institution as security for repayment, or by a collateral pool of eligible securities deposited with a qualified trustee and pledged to secure the repayment of all public monies deposited in the financial institution whose market value at all times shall be at least 105 percent of the deposits being secured.

At fiscal year-end, the carrying amount of the School District's deposits was \$5,277,025, which includes \$4,848 of cash on hand. Based on the criteria described in GASB Statement No. 40, *Deposits and Investment Risk Disclosures*, as of June 30, 2014, \$5,876,207 of the School District's bank balance of \$6,376,207 was uninsured and uncollateralized, while \$500,000 was covered by FDIC. Although the securities were held by the pledging institution's trust department and all statutory requirements for the deposit of money had been followed, noncompliance with Federal requirements could potentially subject the School District to a successful claim by the FDIC.

Funds Held by Trustee

Huntington National Bank acts as a trustee for the School District. Huntington National Bank held on account as of June 30, 2014, \$2,588,304. This money is held in trustee accounts in a sinking fund for the repayment of bonds on March 1, 2021. Collateral is held on direct deposit with the Federal Reserve.

Willoughby-Eastlake City School District
Lake County, Ohio

Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2014

Huntington National Bank also holds, as a trustee, \$638,267 in a “Certificate Fund.” In 2014, the School District entered into an agreement to issue Certificates of Participation (See Note 15). As part of that agreement, there will be deposited in the Certificate Fund amounts transferred from the Project Fund pursuant to the terms of the Lease and the Assignment. These funds will be used solely and exclusively for the payment of Certificate Payments as they become due, except as otherwise provided in the Trust Agreement.

Investments

Custodial Credit Risk For an investment, custodial credit risk is the risk that, in the event of failure of the counterparty, the School District will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The School District has no investment policy dealing with investment custodial risk beyond the requirement in the State statute that prohibits payment for the investments prior to the delivery of the securities representing such investments to the treasurer or qualified trustee.

Interest Rate Risk. As a means of limiting its exposure to fair value losses arising from rising interest rates and according to state law, the School District’s investment policy requires that operating funds be invested primarily in short-term investments maturing within one year from the date of purchase and that the School District’s investment portfolio be structured so that the 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.

As of June 30, 2014, the School District had the following investment and maturities:

Investment Type	Fair Value	Investment Maturities			
		6 Months or Less	46 to 50 Months	51 to 56 Months	57 to 60 Months
Federal Farm Credit					
Bank (FFCB) Notes	\$ 1,483,860	\$ 0	\$ 0	\$ 0	\$ 1,483,860
Federal National Mortgage					
Association (FNMA) Notes	4,935,620	0	4,446,065	489,555	0
Federal Home Loan Bank (FHLB) Notes	8,411,100	0	3,434,210	2,978,310	1,998,580
Federal Home Loan Mortgage					
(FHLM) Notes	1,991,080	0	1,991,080	0	0
STAROhio	1,705,173	1,705,173	0	0	0
Total Investments	\$ 18,526,833	\$ 1,705,173	\$ 9,871,355	\$ 3,467,865	\$ 3,482,440

Credit Risk FFCB notes, FHLM notes, FNMA notes and FHLB notes, were rated Aaa and AA+ by Standard & Poor’s and Moody’s Investor Services, respectively. STAROhio is an investment pool operated by the Ohio State Treasurer. It is unclassified since it is not evidenced by securities that exist in physical or book entry form. Ohio law requires STAROhio maintain the highest rating provided by at least one nationally recognized standard rating service. The weighted average of maturity of the portfolio held by STAROhio as of June 30, 2014, is 51 days and carries a rating of AAAM by Standard and Poor’s. The School District has no investment policy dealing with investment credit risk beyond the requirements in State statutes.

Willoughby-Eastlake City School District
Lake County, Ohio
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2014

Concentration of Credit Risk. The School District places no limit on the amount that may be invested in any one issuer. The following table includes the percentage to total of each investment type held by the School District at June 30, 2014:

<u>Investment Type</u>	<u>Fair Value</u>	<u>Percent of Total</u>
Federal Farm Credit		
Bank (FFCB) Notes	\$ 1,483,860	8.01%
Federal National Mortgage		
Association (FNMA) Notes	4,935,620	26.64%
Federal Home Loan Bank (FHLB) Notes	8,411,100	45.40%
Federal Home Loan Mortgage		
(FHLM) Notes	1,991,080	10.75%
STAROhio	<u>1,705,173</u>	<u>9.20%</u>
 Total	 <u>\$ 18,526,833</u>	 <u>100.00%</u>

Note 6 - Property Taxes

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

Property taxes include amounts levied against all real and public utility property located in the School District. Real property tax revenue received in calendar year 2014 represents collections of calendar year 2013 taxes. Real property taxes received in calendar year 2013 were levied after April 1, 2013, on the assessed value listed as of January 1, 2013, the lien date. Assessed values for real property taxes are established by State law at thirty-five percent of appraised market value. Real property taxes are payable annually or semi-annually. If paid annually, payment is due December 31; if paid semiannually, 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 2014 represents collections of calendar year 2013 taxes. Public utility real and tangible personal property taxes received in calendar year 2014 became a lien December 31, 2012, were levied after April 1, 2013 and are collected in 2014 with real property taxes. Public utility real property is assessed at thirty-five percent of true value; public utility tangible personal property currently is assessed at varying percentages of true value.

The School District receives property taxes from Lake County. The County Auditor periodically advances to the School District its portion of the taxes collected. Second-half real property tax payments collected by the County by June 30, 2014, are available to finance fiscal year 2014 operations. The amount available as an advance at June 30, 2014 was \$2,301,278 in the general fund and \$65,121 in the permanent improvement fund. The amount available as an advance at June 30, 2013, was \$4,167,718 in the general fund and \$124,307 in the permanent improvement fund. The amount available to be advanced can vary based on the date the tax bills are sent.

Willoughby-Eastlake City School District
Lake County, Ohio

Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2014

Accrued property taxes receivable includes real property and public utility property taxes which are measurable as of June 30, 2014, and for which there is an enforceable legal claim. Although total property tax collections for the next fiscal year are measurable, only the delayed personal property tax and 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 inflow of resources.

On an accrual basis, collectible delinquent property taxes have been recorded as a receivable and revenue, while on a modified accrual basis of accounting the revenue has been reported as a deferred inflow of resources.

The assessed values upon which the fiscal year 2014 taxes were collected are:

	2013 Second- Half Collections		2014 First- Half Collections	
	Amount	Percent	Amount	Percent
Real Estate	\$ 1,468,339,060	95%	\$ 1,450,743,620	97%
Public Utility Personal Property	75,948,540	5%	45,272,600	3%
 Total Assessed Values	 \$ 1,544,287,600	 100%	 \$ 1,496,016,220	 100%
 Tax rate per \$1,000 of assessed valuation	 \$ 60.52		 \$ 61.24	

Note 7 - Receivables

Receivables at June 30, 2014, consisted of property taxes, accounts (customer services and student fees) interfund and intergovernmental. 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 fiscal year guarantee of Federal funds. All receivables, except 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.

Space intentionally left blank.

Willoughby-Eastlake City School District
Lake County, Ohio

Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2014

Note 8 - Capital Assets

Capital asset activity for the fiscal year ended June 30, 2014 was as follows:

	Restated Balance 6/30/2013	Additions	Deletions	Balance 6/30/2014
Governmental Activities				
<i>Capital Assets Not Being Depreciated</i>				
Land	\$ 560,374	\$ 373,850	\$ 0	\$ 934,224
Construction in Progress	4,891,366	10,407,556	(14,567,641)	731,281
<i>Total Capital Assets Not Being Depreciated</i>	5,451,740	10,781,406	(14,567,641)	1,665,505
 <i>Capital Assets Being Depreciated</i>				
Buildings and Improvements	37,547,984	17,597,071	0	55,145,055
Furniture and Equipment	1,777,000	61,363	0	1,838,363
Vehicles	5,956,039	39,833	(289,180)	5,706,692
<i>Total Capital Assets Being Depreciated</i>	45,281,023	17,698,267	(289,180)	62,690,110
 <i>Less: Accumulated Depreciation</i>				
Buildings and Improvements	(16,713,856)	(729,533)	0	(17,443,389)
Furniture and Equipment	(1,148,062)	(115,566)	0	(1,263,628)
Vehicles	(4,732,106)	(326,851)	289,180	(4,769,777)
<i>Total Accumulated Depreciation</i>	(22,594,024)	(1,171,950) *	289,180	(23,476,794)
<i>Total Capital Assets Being Depreciated, Net</i>	22,686,999	16,526,317	0	39,213,316
<i>Governmental Activities Capital Assets, Net</i>	\$ 28,138,739	\$ 27,307,723	\$ (14,567,641)	\$ 40,878,821

* Depreciation expense was charged to governmental functions as follows:

Instruction:	
Regular	\$ 362,460
Support Services:	
Pupils	73,541
Administration	511
Operation and Maintenance of Plant	268,968
Pupil Transportation	438,658
Operation of Non-Instructional Services:	
Food Service Operations	27,812
<i>Total Depreciation Expense</i>	<u>\$ 1,171,950</u>

Willoughby-Eastlake City School District
Lake County, Ohio
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2014

Note 9 – Interfund Transactions

A. Interfund Transfers

Interfund transfers for the year ended June 30, 2014, consisted of the following:

	Transfers Out	Transfers In
General Fund	\$ 1,323,099	\$ 0
Major Fund:		
Building	0	79,710
Nonmajor Governmental Funds:		
Permanent Improvement	2,147,264	1,479
Athletics	0	87,708
Auxiliary Services	0	13,561
Title I	0	19,130
Preschool Grants	0	70
Debt Service	0	3,230,462
Internal Service Fund:		
Central Warehouse	0	38,243
Total	\$ 3,470,363	\$ 3,470,363

During the fiscal year, the general fund transferred \$1,323,099 to provide additional resources for current operations. The permanent improvement fund transferred \$2,147,264 to the debt service fund for the payment of debt. Interfund transfers between governmental funds are eliminated in the statement of activities.

B. Interfund Balances

Interfund balances at June 30, 2014 consisted of a \$451,590 payable from the other governmental funds to the general fund. The general fund also has an outstanding advance from the internal service fund in the amount of \$133,680. The primary purpose of the interfund balance is to cover costs in the fund where revenues were not received by June 30. This interfund balance will be repaid once the anticipated revenues are received. These advances are expected to be repaid within one year. Interfund loans between governmental activities are eliminated on the statement of net position.

Note 10 - Risk Management

A. Property and Liability

The School District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees and natural disasters. During fiscal year 2014, the School District was part of a group purchasing consortium of public school districts in Northeast Ohio. The consortium placed coverage through the Liberty Mutual Insurance group affinity program. The company carried the property insurance (which includes inland marine, earthquake, and crime), the fleet insurance and covered the boilers and machinery.

Willoughby-Eastlake City School District
Lake County, Ohio

Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2014

The School District contracted with Liberty Mutual Insurance for liability coverage with limits of liability of \$1,000,000 per claim and \$2,000,000 aggregate to insure the School District, the board members, all administrators, certified and classified employees and volunteers. Additionally, the School District purchased an umbrella policy for additional \$10,000,000 coverage.

Settlements have not exceeded coverage in any of the last three fiscal years. There has not been a significant reduction in coverage from the prior year.

B. Workers' Compensation

The School District pays a premium to the Ohio Bureau of Workers' Compensation based on a rate per \$100 of payroll. This rate itself based upon average costs for all school districts in Ohio. The School District rates are modified below or average based the actual accident history. The School District participates in the Ohio Bureau of Workers' Compensation's retrospective rating program. The program is a paid loss retro with the School District paying reduced premium and then reimbursing the Ohio Bureau of Workers' Compensation for actual claims costs over a number years. Employer's Risk Solutions Company provides cost control and actuarial service to the School District.

C. Employee Medical Benefits

The School District provides medical, surgical, prescription drug and dental benefits to its employees on a self-insured basis. A third party, Medical Mutual, reviews all claims which are then paid by the School District. A premium is paid by the fund that pays the salary for the employee and is based on historical cost information. The School District maintains stop-loss coverage for its insurance program. Aggregate stop-loss is maintained at \$4,986,176 for the one year period ending June 30, 2014.

The claims liability of \$666,846 reported in the internal service fund at June 30, 2014 is estimated by the third-party administrator and is based on the requirements of Governmental Accounting Standards Board Statement No. 30, which requires 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 fund's claims liability amount for the last two fiscal years is listed as follows:

	<u>Balance</u> <u>Beginning of Year</u>	<u>Current</u> <u>Year Claims</u>	<u>Claims</u> <u>Payments</u>	<u>Balance</u> <u>End of Year</u>
2013	\$ 467,080	\$ 6,738,702	\$ 6,705,936	\$ 499,846
2014	\$ 499,846	\$ 6,125,217	\$ 5,958,217	\$ 666,846

Willoughby-Eastlake City School District
Lake County, Ohio

Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2014

Note 11 – Defined Benefit Pension Plans

A. School Employees Retirement System

Plan Description - The School District contributes to the School Employees Retirement System of Ohio (“SERS”), a cost-sharing multiple-employer defined benefit pension plan. SERS provides retirement, disability and survivor benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Authority to establish and amend benefits is provided by state statute per Chapter 3309 of the Ohio Revised Code. SERS issues a publicly available, stand-alone financial report that includes financial statements and required supplementary information. That report can be obtained by contacting SERS, 300 East Broad Street, Suite 100, Columbus, Ohio 43215-3746 or by calling toll free (800) 878-5853. It is also posted on SERS’ website at www.ohsers.org under Employers/Audit Resources.

Funding Policy - Plan members are required to contribute 10 percent of their annual covered salary and the School District is required to contribute at an actuarially determined rate. The current rate is 14 percent of annual covered payroll. A portion of the School District’s contribution is used to fund pension obligations with the remainder being used to fund health care benefits. For fiscal year 2014, 13.05 percent and .05 percent of annual covered salary was the portion used to fund pension obligations and death benefits, respectively. The contribution requirements of plan members and employers are established and may be amended by the SERS’ Retirement Board up to statutory maximum amount of 10 percent for plan members and 14 percent for employers. Chapter 3309 of the Ohio Revised Code provides statutory authority for member and employer contributions. The School District’s required contributions for pension obligations and death benefits to SERS for the fiscal years ended June 30, 2014, 2013 and 2012 were \$1,290,629 \$1,474,010 and \$1,925,519, respectively; 56 percent has been contributed for fiscal year 2014 and 100 percent for the fiscal years 2013 and 2012.

B. State Teachers Retirement System

Plan Description - The School District participates in the State Teachers Retirement System of Ohio (“STRS Ohio”), a cost-sharing, multiple-employer public employee retirement plan. STRS Ohio provides retirement and disability benefits to members and death and survivor benefits to beneficiaries. STRS Ohio issues a publicly-available, stand-alone financial report that may be obtained by writing to STRS Ohio, 275 East Broad Street, Columbus, Ohio 43215-3371, by calling (888) 227-7877, or by visiting the STRS Ohio website at www.strsoh.org.

New members have a choice of three retirement plans, a Defined Benefit (DB) Plan, a Defined Contribution (DC) Plan and a Combined Plan. The DB Plan offers an annual retirement allowance based on final average salary times a percentage that varies based on years of service, or an allowance based on a member’s lifetime contributions and earned interest matched by STRS Ohio funds divided by an actuarially determined annuity factor. The DC Plan allows members to place all their member contributions and employer contributions equal to 10.5 percent of earned compensation into an investment account. Investment decisions are made by the member. A member is eligible to receive a retirement benefit at age 50 and termination of employment. The member may elect to receive a lifetime monthly annuity or a lump sum withdrawal. The Combined Plan offers features of both the DC Plan and the DB Plan. In the Combined Plan, member contributions are invested by the member, and employer contributions are used to fund the defined benefit payment at a reduced level from the regular DB Plan. The DB portion of the Combined Plan payment is payable to a member on or after age 60; the DC portion of the account may be taken as a lump sum or converted to a lifetime monthly annuity at age 50. Benefits are established by Chapter 3307 of the Ohio Revised Code.

Willoughby-Eastlake City School District
Lake County, Ohio
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2014

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

Funding Policy - For fiscal year 2014, plan members were required to contribute 11 percent of their annual covered salaries. The School District was required to contribute 14 percent; 13 percent was the portion used to fund pension obligations. Contribution rates are established by the State Teachers Retirement Board, upon recommendations of its consulting actuary, not to exceed statutory maximum rates of 11 percent for members and 14 percent for employer contributions. Chapter 3307 of the Ohio Revised Code provides statutory authority for member and employer contributions.

The School District's required contributions for pension obligations to STRS Ohio for the fiscal years ended June 30, 2014, 2013 and 2012 were \$5,069,667, \$4,930,658 and \$5,714,742, respectively; 82 percent has been contributed for fiscal year 2014 and 100 percent for the fiscal years 2013 and 2012. Contributions to the DC and Combined Plans for fiscal year 2014 were \$186,543 made by the School District and \$146,570 made by the plan members.

C. Social Security System

Effective July 1, 1991, all employees not otherwise covered by the School Employees Retirement System or the State Teachers Retirement System have an option to choose Social Security or the School Employees Retirement System/State Teachers Retirement System. As of June 30, 2014, certain members of the Board of Education have elected social security. The Board's liability is 6.2 percent of wages paid.

Note 12 - Postemployment Benefits

A. School Employees Retirement System

Plan Description – The School District participates in two cost-sharing, multiple employer defined benefit OPEB plans administered by the School Employees Retirement System for non-certificated retirees and their beneficiaries, a Health Care Plan and a Medicare Part B Plan. The Health Care Plan includes hospitalization and physicians' fees through several types of plans including HMO's, PPO's, Medicare Advantage and traditional indemnity plans. A prescription drug plan is also available to those who elect health coverage. SERS employs two third-party administrators and a pharmacy benefit manager to manage the self-insurance and prescription drug plans, respectively. The Medicare Part B Plan reimburses Medicare Part B premiums paid by eligible retirees and beneficiaries as set forth in Ohio Revised Code Section 3309.69. Qualified benefit recipients who pay Medicare Part B premiums may apply for and receive a monthly reimbursement from SERS. The reimbursement amount is limited by statute to the lesser of the January 1, 1999 Medicare Part B premium or the current premium. The Medicare Part B monthly premium for calendar year 2014 was \$104.90 for most participants, but could be as high as \$335.70 per month depending on their income. SERS' reimbursement to retirees was \$45.50. Benefit provisions and the obligations to contribute are established by the System based on authority granted by State statute. The financial reports of both Plans are included in the SERS Comprehensive Annual Financial Report which is available by contacting SERS at 300 East Broad St., Suite 100, Columbus, Ohio 43215-3746. It is also posted on SERS' website at www.ohsers.org under Employers/Audit Resources.

Willoughby-Eastlake City School District
Lake County, Ohio

Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2014

Funding Policy - State statute permits SERS to fund the health care benefits through employer contributions. Each year, after the allocation for statutorily required benefits, the Retirement Board allocates the remainder of the employer contribution of 14 percent of covered payroll to the Health Care Fund. The Health Care Fund was established and is administered in accordance with Internal Revenue Code Section 105(e). For 2014, 0.14 percent of covered payroll was allocated to health care. An additional health care surcharge on employers is collected for employees earning less than an actuarially determined minimum compensation amount, pro-rated according to service credit earned. Statutes provide that no employer shall pay a health care surcharge greater than 2.0 percent of that employer's SERS-covered payroll; nor may SERS collect in aggregate more than 1.5 percent of the statewide SERS-covered payroll for the health care surcharge. For fiscal year 2014, the actuarially determined amount was \$20,250.

Active members do not contribute to the postemployment benefit plans. The SERS Retirement Board establishes the rules for the premiums paid by the retirees for health care coverage for themselves and their dependents or for their surviving beneficiaries. Retirees and their beneficiaries are required to pay a health care premium that varies depending on the plan selected, the number of qualified years of service, Medicare eligibility and retirement status.

The School District's contributions for health care (including surcharge) for the fiscal years ended June 30, 2014, 2013, and 2012 were \$150,031, \$147,753, and \$83,389, respectively; 56 percent has been contributed for fiscal year 2014 and 100 percent for fiscal years 2013 and 2012.

The Retirement Board, acting with advice of the actuary, allocates a portion of the current employer contribution to the Medicare B Fund. For fiscal year 2014, the actuarially required allocation was 0.76 percent of covered payroll. The School District's contributions for Medicare Part B for the fiscal years ended June 30, 2014, 2013, and 2012 were \$74,876, \$83,265, and \$113,712, respectively; 56 percent has been contributed for fiscal year 2014 and 100 percent for fiscal years 2013 and 2012.

B. State Teachers Retirement System

Plan Description - The School District contributes to the cost sharing, multiple-employer defined benefit Health Plan (the "Plan") administered by the State Teachers Retirement System of Ohio (STRS Ohio) for eligible retirees who participated in the defined benefit or combined pension plans offered by STRS Ohio. Benefits include hospitalization, physicians' fees, prescription drugs and reimbursement of monthly Medicare Part B premiums. The Plan is included in the financial report of STRS. Interested parties can view the most recent Comprehensive Annual Financial Report by visiting www.strsoh.org or by requesting a copy by calling toll-free (888) 227-7877.

Funding Policy - Ohio law authorizes STRS Ohio to offer the Plan and gives the Retirement Board authority over how much, if any, of the health care costs will be absorbed by STRS Ohio. Active employee members do not contribute to the Plan. All benefit recipients pay a monthly premium. Under Ohio law, funding for post-employment health care may be deducted from employer contributions. For 2014, STRS Ohio allocated employer contributions equal to 1 percent of covered payroll to the Health Care Stabilization Fund. The School District's contributions for health care for the fiscal years ended June 30, 2014, 2013, and 2012 were \$389,974, \$379,281, and \$439,596, respectively; 82 percent has been contributed for fiscal year 2014 and 100 percent for fiscal years 2013 and 2012.

Willoughby-Eastlake City School District
Lake County, Ohio
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2014

Note 13 - Employee Benefits

A. Compensated Absences

The criteria for determining vacation, personal and sick leave benefits are derived from negotiated agreements and State laws. Classified employees earn 10 to 22 days of vacation per year, depending upon length of service. Accumulated unused vacation time is paid to classified employees upon termination of employment. Teachers do not earn vacation time. Teachers, administrators and classified employees earn sick leave at the rate of one and a quarter days per month. Upon retirement, an employee is paid for 30 percent of accumulated sick days up to a maximum of 260 accumulated sick days.

B. Early Retirement Incentive and Health Care Termination Benefit Payable

Classified Employees

A retiree receives severance pay at the per diem rate for the actual number of unused sick leave days credited to the employee at the actual time of retirement. The number of unused sick days paid will be thirty percent of a maximum of 260 days plus converted personal days. Payment is made in one lump sum within 60 days of the effective date of retirement. The rate of pay is that of the highest daily rate of the employee's highest year in the preceding ten years. Any employee who is currently eligible for retirement with SERS may receive a retirement incentive bonus if certain qualifications are met. The eligible employee receives \$5,000 if he/she retires in accordance with program guidelines by July 1 of their first year of eligibility. Eligible employees who choose not to retire in their first year of eligibility but retire by July 1 of their second year receive an incentive of \$2,500. An employee who chooses to retire after the second year will not be eligible to receive any retirement bonus. The incentive bonus will be made in two payments beginning January of the next two succeeding years with 60 percent paid on the first payment and 40 percent in the second payment.

Certified Employees

A retiree receives severance pay at the per diem rate for the actual number of unused sick leave days credited to the employee at the actual time of retirement. The number of unused sick days paid will be thirty percent of the maximum of 260 days plus converted personal days. An early retirement incentive of \$40,000 and a health reimbursement account (HRA) of \$30,000 is paid to those teachers who retire in their first year of eligibility for retirement. The incentive bonus is paid in equal installments in the five Januaries following the date of retirement and paid as a reimbursement upon the presentation of receipts for qualifying medical expenses.

C. Life Insurance

The School District provides life insurance in the amount of \$50,000 to employees (excluding substitutes) who regularly work a minimum of 20 hours per week. Employees are also given the option to purchase additional term life insurance through a payroll deduction.

Willoughby-Eastlake City School District
Lake County, Ohio
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2014

Note 14 - Long-Term Obligations

Changes in long-term obligations of the School District during fiscal year 2014 were as follows:

	Balance 06/30/2013	Additions	Deductions	Balance 06/30/2014	Amounts Due Within One Year
<i>Governmental Activities</i>					
<i>Long Term Debt:</i>					
QSCB Tax Anticipation Notes	\$ 8,625,000	\$ 0	\$ 0	\$ 8,625,000	\$ 0
2012 Limited Tax General Obligation Conservation Improvement Bonds	8,589,000	0	(509,000)	8,080,000	515,000
Total Long Term Debt	17,214,000	0	(509,000)	16,705,000	515,000
<i>Capital Leases:</i>					
QSCB Certificates of Participation, Series 2011 6.544% 3/26	4,320,000	0	0	4,320,000	0
Tax Exempt Certificates of Participation, Series 2011 5.00% - 5.375 3/41	9,785,000	0	0	9,785,000	0
Certificates of Participation, Series 2013 3.0% - 5.125% 3/14 - 3/43	0	6,780,000	(295,000)	6,485,000	125,000
Certificates of Participation, Series 2014 2.25% - 4.20% 3/20 - 3/39	0	6,490,000	0	6,490,000	0
Total Capital Leases	14,105,000	13,270,000	(295,000)	27,080,000	125,000
<i>Long Term Liabilities:</i>					
Early Retirement Incentive	3,662,864	1,273,958	(1,329,911)	3,606,911	1,181,337
Healthcare Termination Benefits	2,115,994	420,000	(295,685)	2,240,309	300,286
Compensated Absences	8,431,169	3,316	(604,272)	7,830,213	492,486
Total Long Term Liabilities	14,210,027	1,697,274	(2,229,868)	13,677,433	1,974,109
Total Governmental Activities Long-Term Obligations	\$ 45,529,027	\$ 14,967,274	\$ (3,033,868)	\$ 57,462,433	\$ 2,614,109

On March 22, 2011, the School District issued \$8,625,000 of Qualified School Construction Bonds (QSCB) tax anticipation notes with an interest rate of 5.294 percent. The proceeds will be used for various construction and improvement projects throughout the School District. The notes mature on March 1, 2021. The School District is required to make annual sinking fund payments of \$862,500 for nine consecutive years starting March 1, 2012. The required payment was made in fiscal year 2014.

On May 20, 2012 the School District issued \$8,589,000 in Limited Tax General Obligation Energy Conservation Improvement Bonds. The bonds were issued for a sixteen year period with final maturity at September 1, 2027. The bonds have a varying interest rate of 1.00 to 3.75 percent. The proceeds were used to make district-wide energy conservation improvements.

All debt will be paid from the debt service fund. The early retirement incentive, healthcare termination benefits and compensated absences will be paid from the general fund.

Willoughby-Eastlake City School District
Lake County, Ohio
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2014

Principal and interest requirements to retire the debt outstanding at June 30, 2014 are as follows:

Fiscal Year	Limited Tax General Obligation Energy Conservation Improvement Bonds		QSCB Tax Anticipation Notes		Total	
	Principal	Interest	Principal	Interest	Principal	Interest
	2015	\$ 515,000	\$ 180,131	\$ 0	\$ 456,607	\$ 515,000
2016	520,000	174,956	0	456,608	520,000	631,564
2017	525,000	169,075	0	456,608	525,000	625,683
2018	535,000	161,781	0	456,607	535,000	618,388
2019	540,000	152,369	0	456,608	540,000	608,977
2020-2024	2,880,000	591,047	8,625,000	913,215	11,505,000	1,504,262
2025-2028	2,565,000	185,331	0	0	2,565,000	185,331
	<u>\$ 8,080,000</u>	<u>\$ 1,614,690</u>	<u>\$ 8,625,000</u>	<u>\$ 3,196,253</u>	<u>\$16,705,000</u>	<u>\$ 4,810,943</u>

Note 15 – Capitalized Leases

2011 Certificates of Participation

During fiscal year 2011, the School District entered into a lease-purchase agreement in the amount of \$14,105,000 for various construction and improvement projects throughout the School District. The 2011 certificates of participation consist of \$4,320,000 (Series 2011A) federally taxable Qualified School Construction Bonds and \$9,785,000 (Series 2011B) tax exempt certificates. The School District is leasing the project site from the Ohio School Building Leasing Corporation. The Project consists of the construction, furnishing and equipping and lease and eventual acquisition of improvements to School District buildings and building sites, including the School District’s North High School, South High School and Edison Elementary School buildings and building sites and related improvements. The Leased Property includes the School District’s North High School, South High School and Edison Elementary School buildings and building sites. The land and existing improvements included in the leased property are owned by the School District and are leased to the corporation pursuant to the ground lease, with a term commencing on the closing date and ending date of March 1, 2046. A portion of the proceeds of the Series 2011 Certificates is expected to be used to pay costs of School District buildings and building sites not included in the Leased Property.

The Ohio School Building Leasing Corporation assigned The Huntington National Bank as Trustee, transferring rights, title and interest in the project to the Trustee. The School District is acting as an agent for the lessor, and is constructing the facilities from the proceeds provided by the lessor. The School District will make annual lease payments to The Huntington National Bank. Interest rates range between 5.0 percent and 6.544 percent. The current term of the leases ended on June 30, 2011, however the School District has the right to renew the Leases for successive one-year terms, each ending June 30, except the final Lease Term, which ends on March 1, 2041. The Ground Lease term ends March 1, 2046.

The School District is required to make annual sinking fund payments of \$864,000 for five consecutive years starting March 1, 2022 on the series 2011A certificates of participation. The payments will be held with the trustee and will be used solely to pay the principal component of the base rent attributable to the series 2011A certificates when due.

Willoughby-Eastlake City School District
Lake County, Ohio
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2014

Title to the improvements on the Leased Property, and the right of possession of the Leased Property, will transfer to the School District at the end of the Ground Lease. The School District's obligation to pay lease payments does not constitute a debt of the School District within the meaning of any constitutional or statutory limitation. Certificate of Participation (COP's) payments will be made solely from amounts derived under the Lease, including lease payments.

As part of the two Certificate of Participation agreements, the agreements contain Mandatory Redemption, Optional Redemption, Extraordinary Optional/Mandatory Redemption, and Special Redemption options. Copies of these agreements can be obtained from the Treasurer of Willoughby-Eastlake City School District at 37047 Ridge Road, Willoughby, OH 44094, or by email at bill.parkinson@weschools.org.

As of June 30, 2014, \$14,105,000 of capital assets acquired by lease has been capitalized as buildings and improvements.

No principal payments were made. Payments will be made on the lease from the debt service fund.

2013 and 2014 Certificates of Participation

During fiscal year 2014, the School District entered into two lease-purchase agreements. The first agreement in the amount of \$6,780,000 is for construction, enlarging and other improvements, furnishing and equipping and lease and eventual acquisition of improvements to the School District's buildings and building sites. The Leased Property includes the School District's North High School, South High School and Edison Elementary School buildings and building sites. The land and existing improvements included in the leased property are owned by the School District and are leased to the corporation pursuant to the ground lease, with a term ending five years after the final renewal term of the lease. A portion of the proceeds is expected to be used to pay costs of the School District's buildings and building sites not included in the leased property. The second lease in the amount of \$6,490,000 is for acquisition, construction, enlarging and improvement, furnishing and equipping and lease and eventual acquisition of an office building and building site.

The School District is leasing the project sites from Ohio School Building Leasing Corporation ("Lessor"). The Ohio School Building Leasing Corporation assigned The Huntington National Bank as Trustee ("Trustee"), transferring rights, title and interest in the projects to the Trustee. The School District is acting as an agent for the Lessor, and is constructing the facilities from the proceeds provided by the Lessor. The School District will make annual lease payments to Huntington National Bank. Interest rates for the 2013 and 2014 Certificates of Participation range between 2.25 percent and 5.125 percent. The current term of the leases ended on June 30, 2014, however the School District has the right to renew the Leases for successive one-year terms, each ending June 30, except the final Lease Term, which ends on March 1, 2034. The Ground Lease term ends March 1, 2048.

Title to the improvements on the Leased Property, and the right of possession of the Leased Property, will transfer to the School District at the end of the Ground Lease. The School District's obligation to pay lease payments does not constitute a debt of the School District within the meaning of any constitutional or statutory limitation. Certificate of Participation (COP's) payments will be made solely from amounts derived under the Lease, including lease payments.

Willoughby-Eastlake City School District
Lake County, Ohio
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2014

As part of the two Certificate of Participation agreements, the agreements contain Optional Redemption, Mandatory Redemption and/or Special Redemption options. Copies of these agreements can be obtained from the Treasurer of Willoughby-Eastlake City School District at 37047 Ridge Road, Willoughby, OH 44094, or by email at bill.parkinson@weschools.org.

All capital assets acquired as construction in progress by the 2013 and 2014 certificate of participation leases have been capitalized as buildings and improvements in the amount of \$4,695,904 and \$4,888,958, respectively. Remaining proceeds of \$1,789,096 and \$1,601,042 respectively are planned to be capitalized during fiscal year 2015.

Principal payments in fiscal year 2014 totaled \$295,000. Payments will be made on the lease from the debt service fund.

The following is a schedule of the future long term minimum lease payments required under the capital leases and the present value of the minimum lease payments as of June 30, 2014:

Year ending June 30,	
2015	\$ 1,393,604
2016	1,446,604
2017	1,447,704
2018	1,443,655
2019	1,445,786
2020-2024	8,434,040
2025-2029	13,104,305
2030-2034	9,194,520
2035-2039	9,403,475
2040-2043	3,723,326
	51,037,019
Less amount representing interest	23,957,019
Present value of minimum lease payments	\$ 27,080,000

Willoughby-Eastlake City School District
Lake County, Ohio
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2014

Note 16 - 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 year-end or offset by similarly restricted resources received during the year must be held in cash at year-end and carried forward to be used for the same purposes in future years.

The following cash basis information describes the change in the set-aside amounts for capital improvements. Disclosure of this information is required by State statute.

	Capital Improvements
Set-Aside Restricted Balance June 30, 2013	\$ 0
Current Year Set-Aside Requirement	1,382,937
Current Year Offsets	(2,267,018)
Total	\$ (884,081)
Set-Aside Balance Carried Forward to Fiscal Year 2015	\$ 0
Set-Aside Restricted Balance June 30, 2014	\$ 0

The School District had offsets during the fiscal year that reduced the set-aside amount below zero for the capital acquisition set-aside, this amount may not be used to reduce the set-aside requirement of future years. Therefore, the negative amount is not presented as being carried forward to future years.

Note 17 – Jointly Governed Organizations

A. Tri-Rivers Educational Computer Association

Tri-Rivers Educational Computer Association (TRECA) is a jointly governed organization. TRECA is an association of public districts within the boundaries of Delaware, Knox, Lake, Marion, Morrow, Muskingum and Wyandot Counties. The organization was formed for the purpose of applying modern technology with the aid of computers and other electronic equipment to administrative and instructional functions among member districts. The Governing Board of TRECA consists of one representative from each county elected by majority vote of all charter member districts within each county, one representative from the city districts, and the superintendent from Tri-Rivers Joint Vocational School. Financial information can be obtained from the Tri-Rivers Educational Computer Association, 100 Executive Drive, Marion, Ohio 43302.

B. The Ohio Schools Council

The Ohio Schools Council (Council) is a jointly governed organization among 198 school districts, educational service centers and joint vocational schools. The jointly governed organization was formed to purchase quality products and services at the lowest possible cost to the member districts. Each district supports the Council by paying an annual participation fee. The Council's board consists of seven superintendents of the participating districts whose term rotates every year. The degree of control exercised by any school district is limited to its representation on the board. In fiscal year 2014, the School District paid \$343,380 to the Council. Financial information can be obtained by contacting Dr. David A. Cottrell, Executive Director of the Ohio Schools Council at 6393 Oak Tree Blvd., Suite 377, Independence, Ohio 44131.

Willoughby-Eastlake City School District
Lake County, Ohio
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2014

The School District also participates in the Council's prepaid natural gas program which was implemented during fiscal year 2000. This program allows school districts to purchase natural gas at reduced rates, if the school districts will commit to participating for a twelve year period. The participants make monthly payments based on estimated usage. Each month these estimated payments are compared to their actual usage and any necessary adjustments are made.

The City of Hamilton, a municipal corporation and political subdivision duly organized and existing under the laws of the State of Ohio, issued \$89,450,000 in debt to purchase twelve years of natural gas from CMS Energy Corporation for the participants. The participating school districts are not obligated in any manner for this debt. If a participating school district terminates its agreement, the district is entitled to recover that amount, if any, of its contributions to the operating fund which are not encumbered for its share of program administrative costs.

Note 18 – Related Organization

The Willoughby-Eastlake Public Library (the 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 Willoughby-Eastlake 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 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 Willoughby-Eastlake Public Library, Ms. Suzan Bocciarelli, Clerk/Treasurer, at 263 East 305 Street, Willowick, Ohio 44095.

Note 19 – Commitments

A. Contractual Commitments

At June 30, 2014, the School District had the following contractual commitments:

	Amount of Contract	Expenditures as of 6/30/14	Amount Remaining on Contract
South High School Grandstand	\$ 1,413,000	\$ 374,750	\$ 1,038,250
Interior Finishes at North High School	1,246,000	312,260	933,740
South High School Interior Finishes	92,500	26,680	65,820
	\$ 2,751,500	\$ 713,690	\$ 2,037,810

B. Encumbrance Commitments

Outstanding encumbrances for governmental funds include \$2,036,732 for the general fund, \$795,040 for the building fund and \$172,298 for nonmajor funds.

Willoughby-Eastlake City School District
Lake County, Ohio
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2014

Note 20 – Fund Balance

Fund balance can be 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 governmental funds.

The constraints placed on fund balance for the major governmental funds and all other funds are presented as follows:

	<u>General</u>	<u>Building</u>	<u>Other Governmental Funds</u>	<u>Total</u>
Nonspendable for:				
Unclaimed Monies	\$ 2,195	\$ 0	\$ 0	\$ 2,195
Restricted for:				
Debt Service	0	0	2,591,187	2,591,187
Capital Outlay	0	3,304,208	93,323	3,397,531
State Funded Programs	0	0	172,630	172,630
Federally Funded Programs	0	0	1,280,894	1,280,894
Food Service Operations	0	0	548,578	548,578
Extracurricular Activities	0	0	132,122	132,122
Other Purposes	0	0	33,412	33,412
Total Restricted	<u>0</u>	<u>3,304,208</u>	<u>4,852,146</u>	<u>8,156,354</u>
Committed for:				
Termination Benefits	<u>1,820,550</u>	<u>0</u>	<u>0</u>	<u>1,820,550</u>
Assigned for:				
Encumbrances:				
Instruction	326,676	0	0	326,676
Support Services	1,654,190	0	0	1,654,190
Operations of Non-Instructional Services	153	0	0	153
Capital Outlay	55,713	0	0	55,713
Subsequent Year Appropriations	<u>1,307,850</u>	<u>0</u>	<u>0</u>	<u>1,307,850</u>
Total Assigned	<u>3,344,582</u>	<u>0</u>	<u>0</u>	<u>3,344,582</u>
Unassigned	<u>2,971,030</u>	<u>0</u>	<u>(37,379)</u>	<u>2,933,651</u>
<i>Total Fund Balance</i>	<u>\$ 8,138,357</u>	<u>\$ 3,304,208</u>	<u>\$ 4,814,767</u>	<u>\$ 16,257,332</u>

Willoughby-Eastlake City School District
Lake County, Ohio
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2014

Note 21 - Contingencies

A. 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, the effect of any such disallowed claims on the overall financial position of the School District at June 30, 2014, if applicable, cannot be determined at this time.

B. Litigation

The School District is not party to any claims or lawsuits that would, in the School District's opinion, have a material effect of the basic financial statements.

Note 22 – Subsequent Event

In July 2014, the School District issued \$1,300,000 of school improvement bonds, series 2014 for acquisition of new bleachers for the athletic facilities. The bonds will have an interest rate 3.00 percent with a final maturity date of December 1, 2029.

December 29, 2014

To the Board of Education
Willoughby-Eastlake City School District
Lake County, Ohio
37047 Ridge Road
Willoughby, OH 44094

Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Willoughby-Eastlake City School District, Lake County, Ohio (the School District) as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the School District's basic financial statements, and have issued our report thereon dated December 29, 2014, wherein we noted the School District implemented Governmental Accounting Standards Board (GASB) Statement No. 65, "Items Previously Reported as Assets and Liabilities" and performed a re-valuation of vehicles, furniture and equipment and restated their June 30, 2013 net position of governmental activities.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the School District's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the School District's internal control. Accordingly, we do not express an opinion on the effectiveness of the School District's internal control.

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

Willoughby-Eastlake City School District
Independent Auditor's Report on Internal Control over Financial Reporting and on
Compliance and Other Matters Based on an Audit of Financial Statements
Performed in Accordance with *Government Auditing Standards*
Page 2 of 2

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 deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the School District's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Rea & Associates, Inc.

Medina, Ohio

December 29, 2014

To the Board of Education
Willoughby-Eastlake City School District
Lake County, Ohio
37047 Ridge Road
Willoughby, OH 44094

**Independent Auditor's Report on Compliance for Each Major Federal Program and
Report on Internal Control over Compliance Required by OMB Circular A-133**

Report on Compliance for Each Major Federal Program

We have audited Willoughby-Eastlake City School District's, Lake County, Ohio, (the School District) compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the School District's major federal programs for the year ended June 30, 2014. The School District's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the School District's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the School District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

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

Opinion on Each Major Federal Program

In our opinion, the School District complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2014.

Other Matters

The results of our auditing procedures disclosed an instance of noncompliance, which is required to be reported in accordance with OMB Circular A-133 and which is described in the accompanying schedule of findings and questioned costs as item 2014-001. Our opinion on each major federal program is not modified with respect to this matter.

The School District's response to the noncompliance finding identified in our audit is described in the accompanying schedule of findings and questioned costs. The School District's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

Report on Internal Control over Compliance

Management of the School District is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the School District's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the School 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, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *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 type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program 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 was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, we identified a certain deficiency in internal control over compliance, as described in the accompanying schedule of findings and questioned costs as item 2014-001 that we consider to be a significant deficiency.

The School District's response to the internal control over compliance finding identified in our audit is described in the accompanying schedule of findings and questioned costs. The School District's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

Hea & Associates, Inc.

Medina, Ohio

Willoughby-Eastlake City School District
Lake County, Ohio
Schedule of Expenditures of Federal Awards
For the Fiscal Year Ended June 30, 2014

Federal Grantor/Pass Through Grantor Program Title	Grant Year/ Direct Award No.	CFDA Number	Federal Receipts	Federal Expenditures
U.S. DEPARTMENT OF EDUCATION				
<i>Passed Through Ohio Department of Education:</i>				
<i>Title I:</i>				
Title I Grants to Local Educational Agencies	2013	84.010	\$ 172,406	\$ 162,265
Title I Grants to Local Educational Agencies	2014	84.010	919,778	811,057
<i>Total Title I</i>			<u>1,092,184</u>	<u>973,322</u>
<i>Special Education Cluster:</i>				
Special Education - Grants to States	2013	84.027	154,530	69,305
Special Education - Grants to States	2014	84.027	1,299,394	1,370,549
Total Special Education - Grants to States			<u>1,453,924</u>	<u>1,439,854</u>
Special Education - Preschool Grants	2013	84.173	6,670	6,684
Special Education - Preschool Grants	2014	84.173	34,905	38,280
Total Special Education - Preschool Grants			<u>41,576</u>	<u>44,964</u>
<i>Total Special Education Cluster</i>			<u>1,495,499</u>	<u>1,484,818</u>
Title III - English Language Acquisition Grant	2013	84.365	6,904	7,191
Title III - English Language Acquisition Grant - Immigrant	2014	84.365	21,096	19,712
Total Title III - English Language Acquisition Grant			<u>27,999</u>	<u>26,903</u>
Title II-A - Improving Teacher Quality	2013	84.367	0	(660)
Title II-A - Improving Teacher Quality	2014	84.367	154,958	163,209
Total Title II-A - Improving Teacher Quality			<u>154,958</u>	<u>162,549</u>
ARRA - Race to the Top Ohio Residence Prog.	2012	84.395	2,450	2,450
ARRA - Race to the Top Ohio Residence Prog.	2013	84.395	0	1,050
ARRA - Race to the Top Incentive Grants	2013	84.395	148,706	74,266
ARRA - Race to the Top Incentive Grants	2014	84.395	12,000	1,238
ARRA - Race to the Top Incentive Grants	2014	84.395	12,023	0
ARRA - Race to the Top Ohio Residence Prog.	2014	84.395	3,150	3,150
Total ARRA - Race to the Top Incentive Grants			<u>178,329</u>	<u>82,154</u>
<i>Direct Awards:</i>				
<i>Student Financial Assistance Cluster:</i>				
Federal Pell Grant Program	2014	84.063	250,872	250,872
Federal Direct Student Loans	N/A	84.268	328,689	328,689
<i>Total Student Financial Assistance Cluster</i>			<u>579,561</u>	<u>579,561</u>
<i>Passed Through Mentor Exempted Village School District:</i>				
Vocational Education - Basic Grants to State	2013	84.048	596	(1,348)
Vocational Education - Basic Grants to State	2014	84.048	8,736	9,462
Total Vocational Education - Basic Grants to State			<u>9,332</u>	<u>8,114</u>
Total U.S. Department of Education			<u>3,537,861</u>	<u>3,317,421</u>

(Continued)

Willoughby-Eastlake City School District
Lake County, Ohio
Schedule of Expenditures of Federal Awards
For the Fiscal Year Ended June 30, 2014

Federal Grantor/Pass Through Grantor Program Title	Grant Year/ Direct Award No.	CFDA Number	Federal Receipts	Federal Expenditures
U.S. DEPARTMENT OF AGRICULTURE				
<i>Passed Through Ohio Department of Education:</i>				
<i>Child Nutrition Cluster:</i>				
<i>Non-Cash Assistance (Food Distribution):</i>				
National School Lunch Program	2014	10.555	\$ 99,495	\$ 99,495
<i>Cash Assistance:</i>				
School Breakfast Program	2014	10.553	165,183	165,183
National School Lunch Program	2014	10.555	868,485	868,485
<i>Cash Assistance Subtotal</i>			<u>1,133,162</u>	<u>1,133,163</u>
<i>Total Child Nutrition Cluster</i>			1,133,162	1,133,163
National School Lunch Expansion	2013	10.560	74,988	74,988
Total U.S. Department of Agriculture			<u>1,208,150</u>	<u>1,208,151</u>
U.S. DEPARTMENT OF LABOR				
<i>WIA Cluster:</i>				
<i>Passed Through the Lake County JFS:</i>				
WIA Adult Program	2013	17.258	0	5,841
WIA Adult Program	2014	17.258	32,540	5,815
Total WIA Adult Program			<u>32,540</u>	<u>11,656</u>
<i>Passed Through the Lake County ETA:</i>				
WIA Youth Activities	2013	17.259	12,128	1,686
WIA Youth Activities	2014	17.259	62,257	67,569
Total WIA Youth Activities			<u>74,385</u>	<u>69,255</u>
<i>Total WIA Cluster</i>			<u>106,925</u>	<u>80,911</u>
Total U.S. Department of Labor			<u>106,925</u>	<u>80,911</u>
CORPORATION FOR NATIONAL & COMMUNITY SERVICES				
<i>Direct Grant:</i>				
Retired and Senior Volunteer Program	2014	93.044	50,824	50,824
Total Corporation for National & Community Services			<u>50,824</u>	<u>50,824</u>
TOTAL FEDERAL ASSISTANCE			<u>\$ 4,903,760</u>	<u>\$ 4,657,307</u>

See accompanying notes to the schedule of expenditures of federal awards

Willoughby-Eastlake City School District
Lake County, Ohio
Notes to the Schedule of Expenditures of Federal Awards
For the Fiscal Year Ended June 30, 2014

Note A – Significant Accounting Policies

The accompanying Schedule of Expenditures of Federal Awards summarizes activity of the School District's federal award programs. The schedule has been prepared on the cash basis of accounting.

Note B – Commingled Funds

Federal money is commingled with state subsidy reimbursements for Child Nutrition Cluster, Federal Pell grant and Retired and Senior Volunteer Program. It is assumed federal moneys are expended first.

Note C – Food Donation Program

Program regulations do not require the School District to maintain separate inventory records for purchased food and food received from the U.S. Department of Agriculture. This non-monetary assistance and related expenditures are reported in this schedule at the value of the commodities received as assessed by the U.S. Department of Agriculture (entitlement value).

Note D – Ohio Bureau of Workers' Compensation

Ohio's workers' compensation system serves as an insurance program for both employers and employees alike. For those who contribute premiums, the Ohio Bureau of Workers' Compensation (BWC) covers the payment of compensation and medical costs related to industrial accidents and diseases. The BWC invested contributions over a three-year period which generated a greater than anticipated return. In May 2013, the Ohio BWC Board of Directors authorized a \$1 billion rebate for more than 210,000 public and private entities paying into Ohio's workers' compensation system. Each employer's rebate reflected 56% of what they were billed during the last policy period (2011 calendar year for public-taxing districts). Approximately \$113 million of the \$1 billion rebate went to local governments around the state. Using policy year 2011 as the base year for calculation, the School District allocated its BWC rebate back to all funds, including Federal funds, providing the source of initial premium payments to BWC. The subsequent expenditure of the rebate attributable to Federal programs is reflected on the School District's Schedule of Expenditures of Federal Awards as a negative expenditure.

Willoughby-Eastlake City School District
Lake County, Ohio
Schedule of Findings and Questioned Costs
OMB Circular A-133, Section .505
June 30, 2014

1. SUMMARY OF AUDITOR'S RESULTS
--

(d) (1) (i)	Type of Financial Statement Opinion	Unmodified
(d) (1) (ii)	Were there any material control weakness conditions reported at the financial statement level (GAGAS)?	No
(d) (1) (ii)	Were there any other significant deficiency conditions reported at the financial statement level (GAGAS)?	No
(d) (1) (iii)	Was there any reported material non-compliance at the financial statement level (GAGAS)?	No
(d) (1) (iv)	Was there any material internal control weakness conditions reported for major federal programs?	No
(d) (1) (iv)	Were there any other significant deficiencies reported for major federal programs?	Yes
(d) (1) (v)	Type of Major Programs' Compliance Opinion	Unmodified
(d) (1) (vi)	Are there any reportable findings under Section .510?	Yes
(d) (1) (vii)	Major Programs (list): Title I Child Nutrition Cluster School Breakfast Program National School Lunch Program Student Financial Aid Cluster Federal Pell Grant Program Federal Direct Student Loans	CFDA #84.010 CFDA #10.553 CFDA #10.555 CFDA #84.063 CFDA #84.268
(d) (1) (viii)	Dollar Threshold: Type A/B Programs	Type A: > \$300,000 Type B: All others
(d) (1) (ix)	Low Risk Auditee?	Yes

Willoughby-Eastlake City School District
Lake County, Ohio
Schedule of Findings and Questioned Costs (Continued)
OMB Circular A-133, Section .505
June 30, 2014

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

None noted.

3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS
--

Finding Number: 2014-001

Federal Programs: Nutrition Cluster

CFDA Numbers: 10.553, 10.555

Federal Award Number/Year: 2014

Federal Agency: U.S. Department of Agriculture (USDA)

Significant Deficiency – Noncompliance – Special Tests and Provisions: Verification of Free and Reduced Price Applications (NSLP)

Criteria: Each school year, Local Education Agencies are required to verify the eligibility of children in a sample of household applications approved for free or reduced price meal benefits. Under the existing regulations at 7 CFR Section 245.6a(a), the school food authority may verify a sample of randomly selected applications or a sample of focused applications.

Condition: While performing federal testing over the nutrition cluster for verification, we noted the eligibility determination for one of the five tested students in our sample was incorrectly calculated. The student was eligible to receive a free lunch based on the USDA income eligibility guidelines in effect for fiscal year 2014. The School District incorrectly denied the student for free lunch status. We also noted parents are able to change the meal status of their child in the School District's meal status software throughout the year and no review of the change is conducted by the School District.

Cause: The School District did not have sufficient controls in place to ensure all eligibility determinations in the verification process were accurately conducted.

Effect: This caused noncompliance with the regulations of 7 CFR Section 245.

Recommendation: We recommend the School District develop procedures to ensure all applications selected for eligibility verification are accurately determined. We also recommend the School District implement procedures over its meal status software to provide a notification email to the appropriate food service employee when the status of a student is changed in the system. The propriety of the status change should be reviewed by the appropriate food service employee.

Management's Response: Subsequent to fiscal year-end, the School District hired Chartwells to manage its food service program. In cooperation with Chartwells, the School District implemented procedures that verifies selected applications for eligibility and changes in student status by appropriate School District personnel.

Willoughby-Eastlake City School District
Lake County, Ohio
Schedule of Prior Audit Findings
June 30, 2014

Finding Number	Finding Summary	Fully Corrected?	Corrected, Significantly Different Corrective Action Taken or Finding No Longer Valid Explain
2013-001	Significant Deficiency – Noncompliance – Special Provision: Verification	Yes	Corrected

This page intentionally left blank.



Dave Yost • Auditor of State

WILLOUGHBY- EASTLAKE CITY SCHOOL DISTRICT

LAKE COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
MAY 14, 2015**