



Dave Yost • Auditor of State



**PAINESVILLE CITY LOCAL SCHOOL DISTRICT  
LAKE COUNTY**

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# Dave Yost • Auditor of State

## INDEPENDENT AUDITOR'S REPORT

Painesville City Local School District  
Lake County  
58 Jefferson Street  
Painesville, Ohio 44077

To the Board of Education:

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

We have audited the accompanying cash basis financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Painesville City Local School District, Lake County, Ohio (the District), as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

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

Management is responsible for preparing and fairly presenting these financial statements in accordance with the cash accounting basis Note 2 describes. This responsibility includes determining that the cash accounting basis is acceptable for the circumstances. Management is also responsible for designing, implementing and maintaining internal control relevant to preparing and fairly presenting financial statements that are free from material misstatement, whether due to fraud or error.

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

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

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

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

### ***Opinion***

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective cash financial position of the governmental activities, each major funds, and the aggregate remaining fund information of the Painesville City Local School District, Lake County, Ohio, as of June 30, 2015, and the respective changes in cash financial position and the respective budgetary comparison for the General, Special Levy, and Classroom Facilities Maintenance Funds thereof for the year then ended in accordance with the accounting basis described in Note 2.

**Accounting Basis**

Ohio Administrative Code § 117-2-03(B) requires the District to prepare its annual financial report in accordance with accounting principles generally accepted in the United States of America. We draw attention to Note 2 of the financial statements, which describes the basis applied to these statements. The financial statements are prepared on the cash basis of accounting, which is a basis other than generally accepted accounting principles. We did not modify our opinion regarding this matter.

**Other Matters**

*Supplemental Information*

Our audit was conducted to opine on the financial statements taken as a whole.

The Federal Award Receipts and Expenditures Schedule presents additional analysis as required by the U.S. Office of Management and Budget Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations and is also not a required part of the financial statements.

The schedule is management's responsibility, and derives from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. We subjected this schedule to the auditing procedures we applied to the basic financial statements. We also applied certain additional procedures, including comparing and reconciling this schedule directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and in accordance with auditing standards generally accepted in the United States of America. In our opinion, this schedule is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

*Other Information*

We applied no procedures to Management's Discussion and Analysis as listed in the table of contents. Accordingly, we express no opinion or any other assurance on it.

**Other Reporting Required by Government Auditing Standards**

In accordance with *Government Auditing Standards*, we have also issued our report dated March 17, 2016, on our consideration of the District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. That report describes the scope of our internal control testing over financial reporting and compliance, and the results of that testing, and does not opine on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.



**Dave Yost**  
Auditor of State  
Columbus, Ohio

March 17, 2016

**Painesville City Local School District  
Management's Discussion and Analysis  
For the Fiscal Year Ended June 30, 2015  
(Unaudited)**

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The discussion and analysis of Painesville City Local School District's financial performance provides an overall review of the District's financial activities for the fiscal year ended June 30, 2015. The intent of this discussion and analysis is to look at the District's financial performance as a whole; readers should also review the notes to the basic financial statements and financial statements to enhance their understanding of the District's performance.

**Financial Highlights**

Key financial highlights for 2015 are as follows:

- Net cash position of governmental activities increased \$1,918,635 from 2014.
- General receipts accounted for \$33,728,252 in receipts or 78% of all receipts. Program specific receipts in the form of charges for services and sales, grants and contributions accounted for \$9,242,805 or 22% of total receipts of \$42,971,057.
- The District had \$41,052,422 in disbursements related to governmental activities; \$9,242,805 of these disbursements were offset by program specific charges for services, grants or contributions. General receipts of \$33,728,252 were also used to provide for these programs.

**Overview of the Cash Basis Financial Statements**

This annual report is presented in a format consistent with the presentation requirements of the Governmental Accounting Standards Board (GASB) Statement No. 34, as applicable to the District's cash basis of accounting.

The *Statement of Net Position – Cash Basis* and the *Statement of Activities – Cash Basis* provide information about the activities of the whole District, presenting both an aggregate view of the 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 District's most significant funds with all other non-major funds presented in total in one column. The General Fund, the Special Levy Fund, the Classroom Facilities Maintenance Fund, the Debt Service Fund, and the Permanent Improvement Fund are the major funds of the District.

**Government-wide Financial Statements – Cash Basis**

While this document contains the large number of funds used by the District to provide programs and activities, the view of the District as a whole looks at all financial transactions and asks the question, "How did we do financially during 2015?" The Government-wide Financial Statements answer this question. These statements include only net position using the cash basis of accounting, which is a basis of accounting other than accounting principals generally accepted in the United States of America. This basis of accounting takes into account only the current year's receipts and disbursements if the cash is actually received or paid.

**Painesville City Local School District  
Management's Discussion and Analysis  
For the Fiscal Year Ended June 30, 2015  
(Unaudited)**

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These two statements report the District's net position and changes in the net position on a cash basis. This change in net cash position is important because it tells the reader that, for the District as a whole, the cash basis financial position of the 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 District's property tax base, current property tax laws in Ohio restricting revenue growth, facility conditions, mandated federal and state programs and other factors.

As a result of the use of the cash basis of accounting, certain assets and their related receipts (such as accounts receivable and receipts for billed or provided services not collected) and liabilities and their related disbursements (such as accounts payable and disbursements for goods or services received but not yet paid, and accrued disbursements and liabilities) are not recorded in these financial statements. Therefore, when reviewing the financial information and discussion within this annual report, the reader should keep in mind the limitations resulting from the use of the cash basis of accounting.

In the Government-wide Financial Statements, the overall financial position of the District is presented in the following manner:

- **Governmental Activities** – Most of the District's programs and services are reported here including instruction, support services, operation of non-instructional services, extracurricular activities, pupil transportation, food service, childcare, and fiscal and interest charges.

**Fund Financial Statements**

The analysis of the District's major funds are presented in the Fund Financial Statements. Fund financial reports provide detailed information about the District's major funds. The District uses many funds to account for a multitude of financial transactions. However, these fund financial statements focus on the District's most significant funds.

**Governmental Funds** Most of the 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 the cash basis of accounting, which is a basis of accounting other than accounting principals generally accepted in the United States of America. The governmental fund statements provide a detailed view of the District's general government operations and the basic services it provides. Governmental fund information helps you determine whether there are more or fewer cash basis financial resources that can be readily spent to finance various District programs. Since the District is reporting on the cash basis of accounting, there are no differences in the net cash position and fund cash balances or changes in net cash position and changes in fund cash balances. Therefore, no reconciliation is necessary between such financial statements.

The District's budgetary process accounts for certain transactions on a cash basis. The budgetary statement for the General Fund is presented to demonstrate the District's compliance with annually adopted budgets.

**Fiduciary Funds** Fiduciary Funds are used to account for resources held for the benefits of parties outside the government. Fiduciary Funds are not reflected in the government-wide financial statements because the resources of those funds are not available to support the District's own programs.



**Painesville City Local School District  
Management’s Discussion and Analysis  
For the Fiscal Year Ended June 30, 2015  
(Unaudited)**

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**The District as a Whole**

As stated previously, the Statement of Net Position – Cash Basis looks at the District as a whole. Table 1 provides a summary of the District’s net position for 2015 compared to 2014:

**Table 1  
Net Cash Position**

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	Governmental Activities	
	2015	2014
Assets:		
Current Assets	11,075,878	9,157,243
Total Assets	11,075,878	9,157,243
Net Cash Position:		
Restricted	7,650,900	6,529,652
Unrestricted	3,424,978	2,627,591
Total Net Cash Position	<u>\$11,075,878</u>	<u>\$9,157,243</u>

Over time, net cash position can serve as a useful indicator of a government’s financial position. At June 30, 2015, the District’s net cash position was \$11,075,878.

A portion of the District’s net position, \$7,650,900 represents resources that are subject to external restriction on how they must be used. The external restriction will not affect the availability of fund resources for future use.

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**Painesville City Local School District  
Management's Discussion and Analysis  
For the Fiscal Year Ended June 30, 2015  
(Unaudited)**

Table 2 shows the changes in net cash position for fiscal years 2015 and 2014.

**Table 2  
Changes in Net Cash Position**

	Governmental Activities	
	2015	2014
Receipts:		
Program Cash Receipts:		
Charges for Services and Sales	\$1,611,174	\$1,515,030
Operating Grants and Contributions	7,631,631	5,273,820
General Receipts:		
Property Taxes	10,603,524	10,322,504
Grants and Entitlements	22,531,035	22,536,052
Investment Earnings	22,796	20,800
Other Receipts	570,897	647,347
<b>Total Receipts</b>	<b>42,971,057</b>	<b>40,315,553</b>
Disbursements:		
Instruction		
Regular	12,894,898	12,487,750
Special	7,427,158	6,273,735
Vocational	221,942	232,211
Other	3,043,642	2,907,946
Support Services:		
Pupil	1,953,007	1,676,997
Instructional Staff	1,626,871	2,586,263
General Administration	48,260	38,997
School Administration	3,437,237	3,447,498
Fiscal	600,594	603,433
Business	35,786	32,159
Operations and Maintenance	3,394,055	3,272,016
Pupil Transportation	1,438,831	1,199,021
Central	387,036	264,133
Operation of Non-Instructional Services	1,625,612	1,531,636
Extracurricular Activities	696,682	689,590
Capital Outlay	206,021	201,441
Debt Service:		
Principal Retirement	1,390,000	1,039,721
Interest and Fiscal Charges	624,790	924,267
<b>Total Disbursements</b>	<b>41,052,422</b>	<b>39,408,814</b>
<b>Increase (Decrease) in Net Cash Position</b>	<b>1,918,635</b>	<b>906,739</b>
<b>Net Cash Position Beginning of Year</b>	<b>9,157,243</b>	<b>8,250,504</b>
<b>Net Cash Position End of Year</b>	<b>\$11,075,878</b>	<b>\$9,157,243</b>

**Painesville City Local School District  
Management’s Discussion and Analysis  
For the Fiscal Year Ended June 30, 2015  
(Unaudited)**

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The District receipts came from mainly two sources. Property taxes levied for general, special revenue, debt service and capital projects purposes, as well as grants and entitlements comprised 77% of the District’s receipts for governmental activities.

The District depends greatly on property taxes as a receipt source. The unique nature of property taxes in Ohio creates the need to routinely seek voter approval for operating funds. The overall receipts generated by a levy will not increase solely as a result of inflation. As an example, a homeowner with a home valued at \$100,000 and taxed at 1.0 mill would pay \$35.00 annually in taxes. If three years later the home were reappraised and increased to \$200,000 (and this inflationary increase in value is comparable to other property owners) the effective tax rate would become .5 mills and the owner would still pay \$35.00.

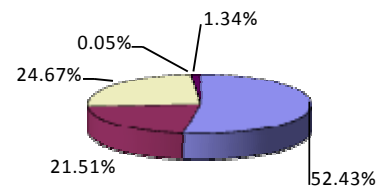
Thus Ohio districts dependent upon property taxes are hampered by a lack of receipt growth and must regularly return to the voters to maintain a constant level of service.

Property taxes made up 25% of governmental activities for the District in fiscal year 2015. The District’s reliance upon tax receipts is demonstrated in the following graph:

**Governmental Activities  
Receipt Sources**

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<u>Receipt Sources</u>	<u>2015</u>	<u>Percentage of Total</u>
General Grants	\$22,531,035	52.43%
Program Receipts	\$9,242,805	21.51%
General Tax Receipts	\$10,603,524	24.67%
Investment Earnings	\$22,796	0.05%
Other Receipts	\$570,897	1.34%
	<u>\$42,971,057</u>	<u>100.00%</u>



Instruction comprises 57% of governmental program disbursements. Support services 31% disbursements were of governmental program disbursements. All other disbursements including interest were 12%. Interest was attributable to the outstanding bond and borrowing for capital projects.

Total receipts increased mainly due to an increase in program receipts received by the District in 2015. Overall disbursements increased mainly due to increases in personnel costs and general inflationary factors.

**Governmental Activities**

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 receipts and unrestricted State entitlements.

**Painesville City Local School District  
Management's Discussion and Analysis  
For the Fiscal Year Ended June 30, 2015  
(Unaudited)**

**Table 3  
Governmental Activities**

	Total Cost of Services		Net Cost of Services	
	2015	2014	2015	2014
Cash Disbursements:				
Instruction	\$23,587,640	\$21,901,642	(\$17,340,727)	(\$17,998,471)
Support Services:				
Pupil and Instructional Staff	3,579,878	4,263,260	(2,844,469)	(3,413,456)
School Administrative, General				
Administration, Fiscal and Business	4,121,877	4,122,087	(4,105,620)	(4,073,245)
Operations and Maintenance	3,394,055	3,272,016	(3,302,504)	(3,185,465)
Pupil Transportation	1,438,831	1,199,021	(1,170,552)	(1,132,355)
Central	387,036	264,133	(387,036)	(264,123)
Operation of Non-Instructional Services	1,625,612	1,531,636	46,184	56,433
Extracurricular Activities	696,682	689,590	(484,082)	(443,853)
Capital Outlay	206,021	201,441	(206,021)	(201,441)
Debt Service:				
Principal Retirement	1,390,000	1,257,094	(1,390,000)	(1,257,094)
Interest and Fiscal Charges	624,790	706,894	(624,790)	(706,894)
Total Cash Disbursements	<u>\$41,052,422</u>	<u>\$39,408,814</u>	<u>(\$31,809,617)</u>	<u>(\$32,619,964)</u>

**The District's Funds**

The District's governmental funds are accounted for using the cash basis of accounting.

The District has five major governmental funds: the General Fund, the Special Levy Fund, Classroom Facilities Maintenance Fund, the Debt Service Fund, and the Permanent Improvement Fund. Assets of these funds comprised \$10,407,586 (94%) of the total \$11,075,878 in governmental funds assets.

**General Fund:** The net change in fund cash balance for fiscal year 2015 was \$797,387, which is due to increased intergovernmental receipts from 2014.

**Special Levy Fund:** The net change in fund cash balance for fiscal year 2015 was \$898,304, which is due to a decrease in instructional disbursements from 2014.

**Classroom Facilities Maintenance Fund:** The net change in fund cash balance for fiscal year 2015 was \$80,714. The increase in fund cash balance remained fairly consistent with 2014.

**Debt Service Fund:** The net change in fund cash balance for fiscal year 2015 was \$95,298. The increase in fund cash balance mainly came from a decrease in interest and fiscal charges from 2014.

**Permanent Improvement Fund:** Fund cash balance as of June 30, 2015 was \$1,626,452. The increase in fund cash balance from 2014 mainly comes from a transfer into the fund.

**Painesville City Local School District  
Management's Discussion and Analysis  
For the Fiscal Year Ended June 30, 2015  
(Unaudited)**

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**General Fund Budgeting Highlights**

The 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 2015, the District amended its General Fund budget numerous times, however none were significant. The District uses site-based budgeting and the budgeting systems are designed to tightly control total site budgets but provide flexibility for site management. During the course of the year, the District revised the Budget in an attempt to deal with unexpected changes in receipts and disbursements.

For the General Fund, final budget basis receipts were \$33,036,999, compared to original budget estimates of \$32,352,698. Of this \$684,301 difference, most was due to estimating for taxes and intergovernmental receipts.

The District's ending unobligated cash balance was \$3,035,869.

**Capital Assets and Debt Administration**

***Capital Assets***

The District does not currently present its capital assets in the accompanying cash basis basic financial statements, but records payments for capital assets as disbursements.

***Debt***

The District does not currently present its debt in the accompanying cash basis basic financial statements, but records principal, and interest and fiscal charges payments as disbursements.

At June 30, 2015, the District had \$28,035,695 in debt outstanding, \$1,486,248 due within one year.

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**Painesville City Local School District  
Management's Discussion and Analysis  
For the Fiscal Year Ended June 30, 2015  
(Unaudited)**

Table 4 summarizes total debt outstanding.

Table 4  
Outstanding Debt, at Year End

	Governmental Activities	
	2015	2014
General Obligation Bonds:		
Current Interest Bonds - 2005 School Improvement	\$385,000	\$1,310,000
Capital Appreciation Bonds - 2005 School Improvement	136,248	287,372
Accreted Interest - 2005 School Improvement	229,313	407,769
Current Interest Bonds - 2012 Advance Refunding	8,055,000	8,180,000
Capital Appreciation Bonds - 2012 Advance Refunding	74,986	74,986
Accreted Interest - 2012 Advance Refunding	76,890	44,710
Premium on Refunding - 2012 Advance Refunding	935,807	989,282
Current Interest Bonds - 2013 Advance Refunding	8,160,000	8,300,000
Capital Appreciation Bonds - 2013 Advance Refunding	34,995	34,995
Accreted Interest - 2013 Advance Refunding	91,374	36,573
Premium on Refunding - 2013 Advance Refunding	1,167,269	1,233,970
Current Interest Bonds - 2014 Advance Refunding	7,315,000	7,515,000
Capital Appreciation Bonds - 2014 Advance Refunding	664,994	664,994
Accreted Interest - 2014 Advance Refunding	160,012	20,195
Premium on Refunding - 2014 Advance Refunding	548,807	603,688
Total Outstanding Debt at Year End	<u>\$28,035,695</u>	<u>\$29,703,534</u>

See note 5 to the basic financial statements for further details on the District's debt.

**For the Future**

Due to the uncertain and ever changing State budget allocation to public schools, the District will be required to manage carefully and prudently the resources currently available. With careful planning the monitoring of the District's finances, the District's management is confident that the District can continue to provide a quality education for our students and provide a secure financial future.

**Contacting the District's Financial Management**

This financial report is designed to provide our citizens, taxpayers, and investors and creditors with a general overview of the District's finances and to show the District's accountability for the money it receives. If you have questions about this report or need additional financial information, contact Sherri Samac, Treasurer at Painesville City Local School District, 58 Jefferson Street, Painesville, Ohio 44077. Or e-mail [sherri.samac@pcls.net](mailto:sherri.samac@pcls.net).

Painesville City Local School District  
Statement of Net Position - Cash Basis  
June 30, 2015

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	Governmental Activities
Assets:	
Equity in Pooled Cash and Cash Equivalents	\$10,537,188
Restricted Cash and Cash Equivalents	<u>538,690</u>
Total Assets	<u>11,075,878</u>
Net Cash Position:	
Restricted for:	
Debt Service	1,169,867
Capital Projects	2,045,932
Classroom Facilities Maintenance	1,453,802
State Funded Programs	45,406
Federally Funded Programs	167,424
Special Levy	2,313,007
Food Service	267,078
Other Purposes	188,384
Unrestricted	<u>3,424,978</u>
Total Net Cash Position	<u>\$11,075,878</u>

See accompanying notes to the basic financial statements.

Painesville City Local School District  
Statement of Activities - Cash Basis  
For the Fiscal Year Ended June 30, 2015

	Cash Disbursements	Program Cash Receipts		Net (Disbursements) Receipts and Changes in Net Cash Position
		Charges for Services and Sales	Operating Grants and Contributions	Governmental Activities
<b>Governmental Activities:</b>				
<b>Instruction:</b>				
Regular	\$12,894,898	\$1,003,300	\$430,360	(\$11,461,238)
Special	7,427,158	294,703	4,336,178	(2,796,277)
Vocational	221,942	0	11,398	(210,544)
Other	3,043,642	0	170,974	(2,872,668)
<b>Support Services:</b>				
Pupil	1,953,007	0	181,769	(1,771,238)
Instructional Staff	1,626,871	0	553,640	(1,073,231)
General Administration	48,260	0	0	(48,260)
School Administration	3,437,237	0	16,257	(3,420,980)
Fiscal	600,594	0	0	(600,594)
Business	35,786	0	0	(35,786)
Operations and Maintenance	3,394,055	0	91,551	(3,302,504)
Pupil Transportation	1,438,831	35,355	232,924	(1,170,552)
Central	387,036	0	0	(387,036)
Operation of Non-Instructional Services	1,625,612	97,291	1,574,505	46,184
Extracurricular Activities	696,682	180,525	32,075	(484,082)
Capital Outlay	206,021	0	0	(206,021)
<b>Debt Service:</b>				
Principal Retirement	1,390,000	0	0	(1,390,000)
Interest and Fiscal Charges	624,790	0	0	(624,790)
<b>Totals</b>	<u>\$41,052,422</u>	<u>\$1,611,174</u>	<u>\$7,631,631</u>	<u>(31,809,617)</u>

**General Receipts:**

<b>Property Taxes Levied for:</b>	
General Purposes	7,023,486
Special Revenue Purposes	1,791,604
Debt Service Purposes	1,767,861
Capital Projects Purposes	20,573
Grants and Entitlements, Not Restricted	22,531,035
Investment Earnings	22,796
Other Receipts	570,897
<b>Total General Receipts</b>	<u>33,728,252</u>
<b>Change in Net Cash Position</b>	1,918,635
<b>Net Cash Position - Beginning of Year</b>	<u>9,157,243</u>
<b>Net Cash Position - End of Year</b>	<u>\$11,075,878</u>

See accompanying notes to the basic financial statements.



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Painesville City Local School District  
Statement of Assets and Fund Balances - Cash Basis  
Governmental Funds  
June 30, 2015

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	General	Special Levy	Classroom Facilities Maintenance	Debt Service
Assets:				
Equity in Pooled Cash and Cash Equivalents	\$2,886,288	\$2,313,007	\$1,453,802	\$1,169,867
Restricted Cash and Cash Equivalents	<u>538,690</u>	<u>0</u>	<u>0</u>	<u>0</u>
Total Assets	<u>\$3,424,978</u>	<u>\$2,313,007</u>	<u>\$1,453,802</u>	<u>\$1,169,867</u>
Fund Cash Balances:				
Restricted	\$0	\$2,313,007	\$1,453,802	\$1,169,867
Committed	433,222	0	0	0
Assigned	711,879	0	0	0
Unassigned	<u>2,279,877</u>	<u>0</u>	<u>0</u>	<u>0</u>
Total Fund Cash Balances	<u>\$3,424,978</u>	<u>\$2,313,007</u>	<u>\$1,453,802</u>	<u>\$1,169,867</u>

See accompanying notes to the basic financial statements.

Permanent Improvement	Other Governmental Funds	Total Governmental Funds
\$2,045,932	\$668,292	\$10,537,188
0	0	538,690
<u>\$2,045,932</u>	<u>\$668,292</u>	<u>\$11,075,878</u>
\$2,045,932	\$668,292	\$7,650,900
0	0	433,222
0	0	711,879
0	0	2,279,877
<u>\$2,045,932</u>	<u>\$668,292</u>	<u>\$11,075,878</u>

Painesville City Local School District  
Statement of Cash Receipts, Cash Disbursements  
and Changes in Fund Cash Balances - Cash Basis  
Governmental Funds  
For the Fiscal Year Ended June 30, 2015

	General	Special Levy	Classroom Facilities Maintenance	Debt Service
<b>Receipts:</b>				
Property and Other Taxes	\$7,023,486	\$1,667,675	\$123,929	\$1,767,861
Tuition and Fees	1,285,902	0	0	0
Investment Earnings	19,016	0	662	540
Intergovernmental	24,716,708	0	86,551	372,982
Extracurricular Activities	64,304	0	0	0
Charges for Services	16,837	0	0	0
Other Receipts	551,449	0	442	0
<b>Total Receipts</b>	<b>33,677,702</b>	<b>1,667,675</b>	<b>211,584</b>	<b>2,141,383</b>
<b>Cash Disbursements:</b>				
<b>Current:</b>				
<b>Instruction:</b>				
Regular	11,715,478	769,371	0	0
Special	5,456,603	0	0	0
Vocational	221,942	0	0	0
Other	2,869,820	0	0	0
<b>Support Services:</b>				
Pupil	1,773,221	0	0	0
Instructional Staff	1,024,443	0	0	0
General Administration	48,260	0	0	0
School Administration	3,414,684	0	0	0
Fiscal	566,761	0	0	31,295
Business	35,786	0	0	0
Operations and Maintenance	3,243,385	0	130,870	0
Pupil Transportation	1,387,323	0	0	0
Central	385,989	0	0	0
Operation of Non-Instructional Services	9,930	0	0	0
Extracurricular Activities	516,793	0	0	0
Capital Outlay	206,021	0	0	0
<b>Debt Service:</b>				
Principal Retirement	0	0	0	1,390,000
Interest and Fiscal Charges	0	0	0	624,790
<b>Total Cash Disbursements</b>	<b>32,876,439</b>	<b>769,371</b>	<b>130,870</b>	<b>2,046,085</b>
<b>Excess of Receipts Over (Under) Cash Disbursements</b>	<b>801,263</b>	<b>898,304</b>	<b>80,714</b>	<b>95,298</b>
<b>Other Financing Sources (Uses):</b>				
Advances In	194,566	0	0	0
Advances (Out)	0	0	0	0
Transfers In	0	0	0	0
Transfers (Out)	(198,442)	0	0	0
<b>Total Other Financing Sources (Uses)</b>	<b>(3,876)</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b>Net Change in Fund Cash Balance</b>	<b>797,387</b>	<b>898,304</b>	<b>80,714</b>	<b>95,298</b>
<b>Fund Cash Balance - Beginning of Year</b>	<b>2,627,591</b>	<b>1,414,703</b>	<b>1,373,088</b>	<b>1,074,569</b>
<b>Fund Cash Balance - End of Year</b>	<b>\$3,424,978</b>	<b>\$2,313,007</b>	<b>\$1,453,802</b>	<b>\$1,169,867</b>

See accompanying notes to the basic financial statements.

Permanent Improvement	Other Governmental Funds	Total Governmental Funds
\$20,573	\$0	\$10,603,524
0	0	1,285,902
460	2,118	22,796
40,912	4,945,513	30,162,666
0	117,070	181,374
0	96,317	113,154
0	49,750	601,641
<u>61,945</u>	<u>5,210,768</u>	<u>42,971,057</u>
0	410,049	12,894,898
0	1,970,555	7,427,158
0	0	221,942
0	173,822	3,043,642
0	179,786	1,953,007
0	602,428	1,626,871
0	0	48,260
1,437	21,116	3,437,237
2,538	0	600,594
0	0	35,786
14,800	5,000	3,394,055
0	51,508	1,438,831
1,047	0	387,036
0	1,615,682	1,625,612
6,242	173,647	696,682
0	0	206,021
0	0	1,390,000
0	0	624,790
<u>26,064</u>	<u>5,203,593</u>	<u>41,052,422</u>
<u>35,881</u>	<u>7,175</u>	<u>1,918,635</u>
0	0	194,566
0	(194,566)	(194,566)
1,590,571	199,204	1,789,775
0	(1,591,333)	(1,789,775)
<u>1,590,571</u>	<u>(1,586,695)</u>	<u>0</u>
1,626,452	(1,579,520)	1,918,635
419,480	2,247,812	9,157,243
<u>\$2,045,932</u>	<u>\$668,292</u>	<u>\$11,075,878</u>

Painesville City Local School District  
Statement of Receipts, Cash Disbursements and Changes in Fund Balance  
Budget and Actual (Non-GAAP Budgetary Basis)  
For the Fiscal Year Ended June 30, 2015

	General Fund			
	Original Budget	Final Budget	Actual	Variance from Final Budget
<b>Budgetary Basis Receipts:</b>				
Taxes	\$6,877,643	\$7,023,113	\$7,023,486	\$373
Tuition and Fees	1,003,781	1,025,013	1,025,067	54
Investment Earnings	18,620	19,014	19,015	1
Intergovernmental	24,018,281	24,526,298	24,527,599	1,301
Extracurricular Activities	21,299	21,750	21,751	1
Other Receipts	413,074	421,811	421,833	22
<b>Total Budgetary Basis Receipts</b>	<b>32,352,698</b>	<b>33,036,999</b>	<b>33,038,751</b>	<b>1,752</b>
<b>Budgetary Basis Disbursements:</b>				
<b>Current:</b>				
<b>Instruction:</b>				
Regular	11,400,067	11,717,950	11,717,935	15
Special	5,010,279	5,149,987	5,149,981	6
Vocational	69,369	71,303	71,303	0
Other	2,791,972	2,869,824	2,869,820	4
<b>Support Services:</b>				
Pupil	1,715,107	1,762,931	1,762,929	2
Instructional Staff	877,198	901,658	901,657	1
General Administration	47,437	48,760	48,760	0
School Administration	3,244,999	3,335,483	3,335,479	4
Fiscal	551,387	566,762	566,761	1
Business	34,886	35,859	35,859	0
Operations and Maintenance	3,077,653	3,163,471	3,163,467	4
Pupil Transportation	1,418,842	1,458,406	1,458,404	2
Central	377,753	388,286	388,286	0
Operation of Non-Instructional Services	9,661	9,930	9,930	0
Extracurricular Activities	469,915	483,019	483,018	1
Capital Outlay	200,432	206,021	206,021	0
<b>Total Budgetary Basis Disbursements</b>	<b>31,296,957</b>	<b>32,169,650</b>	<b>32,169,610</b>	<b>40</b>
<b>Excess of Budgetary Basis Receipts Over (Under)</b>				
Budgetary Basis Disbursements	1,055,741	867,349	869,141	1,792
<b>Other Financing Sources (Uses):</b>				
Advances In	190,525	194,555	194,565	10
Transfers (Out)	(420,781)	(432,515)	(432,514)	1
<b>Total Other Financing Sources (Uses)</b>	<b>(230,256)</b>	<b>(237,960)</b>	<b>(237,949)</b>	<b>11</b>
<b>Net Change in Fund Balance</b>	<b>825,485</b>	<b>629,389</b>	<b>631,192</b>	<b>1,803</b>
<b>Fund Balance Beginning of Year (includes prior year encumbrances appropriated)</b>	<b>2,404,677</b>	<b>2,404,677</b>	<b>2,404,677</b>	<b>0</b>
<b>Fund Balance End of Year</b>	<b>\$3,230,162</b>	<b>\$3,034,066</b>	<b>\$3,035,869</b>	<b>\$1,803</b>

See accompanying notes to the basic financial statements.

Painesville City Local School District  
Statement of Receipts, Cash Disbursements and Changes in Fund Balance  
Budget and Actual (Non-GAAP Budgetary Basis)  
For the Fiscal Year Ended June 30, 2015

	Special Levy Fund			
	Original Budget	Final Budget	Actual	Variance from Final Budget
Budgetary Basis Receipts:				
Taxes	\$1,450,000	\$1,667,675	\$1,667,675	\$0
Total Budgetary Basis Receipts	1,450,000	1,667,675	1,667,675	0
Budgetary Basis Disbursements:				
Current:				
Instruction:				
Regular	950,000	769,372	769,371	1
Total Budgetary Basis Disbursements	950,000	769,372	769,371	1
Net Change in Fund Balance	500,000	898,303	898,304	1
Fund Balance Beginning of Year (includes prior year encumbrances appropriated)	1,414,704	1,414,704	1,414,704	0
Fund Balance End of Year	\$1,914,704	\$2,313,007	\$2,313,008	\$1

See accompanying notes to the basic financial statements.

Painesville City Local School District  
Statement of Receipts, Cash Disbursements and Changes in Fund Balance  
Budget and Actual (Non-GAAP Budgetary Basis)  
For the Fiscal Year Ended June 30, 2015

	Classroom Facilities Maintenance Fund			
	Original Budget	Final Budget	Actual	Variance from Final Budget
Budgetary Basis Receipts:				
Taxes	\$117,144	\$123,888	\$123,929	\$41
Investment Earnings	626	662	662	0
Intergovernmental	81,812	86,522	86,551	29
Other Receipts	418	442	442	0
<b>Total Budgetary Basis Receipts</b>	<b>200,000</b>	<b>211,514</b>	<b>211,584</b>	<b>70</b>
Budgetary Basis Disbursements:				
Current:				
Support Services:				
Operations and Maintenance	251,700	143,852	143,851	1
<b>Total Budgetary Basis Disbursements</b>	<b>251,700</b>	<b>143,852</b>	<b>143,851</b>	<b>1</b>
<b>Net Change in Fund Balance</b>	<b>(51,700)</b>	<b>67,662</b>	<b>67,733</b>	<b>71</b>
<b>Fund Balance Beginning of Year (includes prior year encumbrances appropriated)</b>	<b>1,373,091</b>	<b>1,373,091</b>	<b>1,373,091</b>	<b>0</b>
<b>Fund Balance End of Year</b>	<b>\$1,321,391</b>	<b>\$1,440,753</b>	<b>\$1,440,824</b>	<b>\$71</b>

See accompanying notes to the basic financial statements.



Painesville City Local School District  
Statement of Fiduciary Net Position - Cash Basis  
Fiduciary Fund  
June 30, 2015

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	Private Purpose Trust	Agency
	<u>          </u>	<u>          </u>
Assets:		
Equity in Pooled Cash and Cash Equivalents	\$11,308	\$14,783
Total Assets	<u>11,308</u>	<u>\$14,783</u>
Net Cash Position:		
Held on Behalf of Scholarship Programs	11,308	\$0
Held on Behalf of Student Managed Activity	<u>0</u>	<u>14,783</u>
Total Net Cash Position	<u>\$11,308</u>	<u>\$14,783</u>

See accompanying notes to the basic financial statements.

Painesville City Local School District  
Statement of Changes in Fiduciary Net Position - Cash Basis  
Fiduciary Fund  
For the Fiscal Year Ended June 30, 2015

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	Private Purpose Trust
Additions:	
Investment Earnings	<u>\$3</u>
Total Additions	<u>3</u>
Deductions:	
Scholarships	<u>1,727</u>
Total Deductions	<u>1,727</u>
Change in Net Cash Position	(1,724)
Net Cash Position - Beginning of Year	<u>13,032</u>
Net Cash Position - End of Year	<u>\$11,308</u>

See accompanying notes to the basic financial statements.

**Painesville City Local School District  
Lake County, Ohio  
Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2015**

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**Note 1 - Description of the District**

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The Painesville City Local School District (the "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 District is a local district as defined by Section 3311.03 of the Ohio Revised Code. The District operates under a five member elected Board of Education and is responsible for the provision of public education to residents of the District.

The District is located in Lake County.

Average daily membership (ADM) as of June 1, 2015 was 3,263. The District employed 230 certificated employees and 159 non-certificated employees. It currently operates six instructional facilities.

**Reporting Entity**

In accordance with all relevant Governmental Accounting Standards Board (GASB) pronouncements, the financial reporting entity consists of a primary government and its component units. The District is a primary government because it is a special-purpose government that has a separately elected governing body, is legally separate, and is fiscally independent of other state and local governments.

There are no component units combined with the District for financial statement presentation purposes, and it is not included in any other governmental reporting entity. Consequently, the District's financial statements include only the funds of those organizational entities for which its elected governing body is financially accountable. The District's major operations include education, pupil transportation, food service, and maintenance of District facilities.

The District participates in three Jointly Governed Organizations, a shared risk pool and an insurance purchasing pool, that are further described in the notes to the financial statements.

**Note 2 – Summary of Significant Accounting Policies**

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These financial statements are presented on a cash basis of accounting. This cash basis of accounting differs from accounting principles general accepted in the United States of America (GAAP). Generally accepted accounting principles include all the relevant Governmental Accounting Standards Board (GASB) pronouncements, which have been applied to the extent they are applicable to the cash basis of accounting.

Ohio Administrative Code, Section 117-2-03 (B), requires the District to prepare its annual financial report in accordance with generally accepted accounting principles. However, the District prepared its financial statements on a cash basis, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. The accompanying financial statements omit assets, liabilities, deferred inflows, deferred outflows, net position/fund balances, and disclosures that, while material, cannot be determined at this time. The District can be fined and various other administrative remedies may be taken against the District.

**Painesville City Local School District  
Lake County, Ohio  
Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2015**

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**Fund Accounting**

The District uses funds to maintain its financial records during the fiscal year. Fund accounting is designed to demonstrate legal compliance and to aid management by segregating transactions related to certain District functions or activities. A fund is defined as a fiscal and accounting entity with a self-balancing set of accounts. The various funds of the District are grouped into the categories governmental and fiduciary.

**Governmental Funds**

Governmental funds focus 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. The following are the District's major governmental funds:

General Fund - The general fund 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.

Special Levy Fund – The special levy fund is from the Lake County School Financing District that is made up of Perry, Madison, Riverside and Painesville City Local Schools. The funds are to be used for educational programs and services.

Classroom Facilities Maintenance Fund – The classroom facilities maintenance fund is used to account for the proceeds of a levy for the maintenance of facilities.

Debt Service Fund – The debt service fund is used to account for the accumulation of resources for the payment of general obligation bond principal and interest and certain long-term obligations from governmental resources when the District is obligated in some manner for the payment.

Permanent Improvement Fund – The permanent improvement fund is used to account for all transactions related to the acquiring, construction or improving of such permanent improvements as are authorized by Chapter 5705.

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

**Fiduciary Funds**

Fiduciary fund reporting focuses on net cash position and changes in net cash 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 District under a trust agreement for individuals, private organizations, or other governments and are therefore not available to support the District's own programs. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. The District's only trust fund is a private purpose trust which accounts for scholarship programs for students. The District has a student managed activity agency fund

**Painesville City Local School District  
Lake County, Ohio  
Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2015**

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which accounts for assets generated by student managed activities and an Athletic playoffs agency fund which accounts for assets generated by this fund.

**Basis of Presentation**

Government-wide Financial Statements

The statement of net position - cash basis and the statement of activities - cash basis display information about the District as a whole. These statements include the financial activities of the primary government, except for fiduciary funds.

The government-wide statement of activities compares disbursements with program receipts for each function or program of the District's governmental activities. These disbursements are those that are specifically associated with a service, program or department and are therefore clearly identifiable to a particular function. Program receipts include charges paid by the recipient of the goods or services offered by the program and grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Receipts which are not classified as program receipts are presented as general receipts of the District. The comparison of direct disbursements with program receipts identifies the extent to which each business segment or governmental function is self-financing on the cash basis or draws from the general receipts of the District.

Fund Financial Statements

The fund financial statements report more detailed information about the District. The focus of governmental fund financial statements is on major funds rather than reporting funds by type. Fund statements present each major fund in a separate column and aggregate non-major funds in a single column. Fiduciary funds are reported by fund type.

**Equity in Pooled Cash and and Cash Equivalents**

To improve cash management, cash received by the District is pooled. Monies for all funds are maintained in this pool. Individual fund integrity is maintained through the District's records. Each fund's interest in the pool is presented as "Equity in Pooled Cash and Cash Equivalents" on the basic financial statements.

The District has invested funds in the State Treasury Asset Reserve of Ohio (STAR Ohio) during fiscal year 2015. STAR Ohio is an investment pool managed by the State Treasurer's Office, which allows governments within the State to pool their funds for investment purposes. STAR Ohio is not registered with the SEC as an investment company but does operate in a manner consistent with Rule 2A7 of the Investment Company Act of 1940. Investments in STAR Ohio are valued at STAR Ohio's share price, which is the price the investment could be sold for on June 30, 2015.

Following Ohio statutes, the Board has, by resolution, specified the funds to receive an allocation of interest earnings. Interest during the fiscal year amounted to \$19,016 credited to the general fund, \$662 credited to the classroom facilities maintenance fund, \$540 credited to the debt service fund, \$460 credited to the permanent improvement fund, and \$2,118 credited to other governmental funds.

**Painesville City Local School District  
Lake County, Ohio  
Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2015**

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**Inventory and Prepaid Items**

The District reports disbursements for inventory and prepaid items when paid. These items are not reflected in the accompanying financial statements under the cash basis of accounting.

**Capital Assets**

Acquisitions of property, plant and equipment are recorded as disbursements when paid. These items are not reflected in the accompanying financial statements under the cash basis of accounting.

**Unpaid Vacation and Sick Leave**

Employees are entitled to cash payments for unused vacation and sick leave in certain circumstances, such as upon leaving employment. Unpaid vacation and sick leave are not reflected as liabilities under the cash basis of accounting used by the District.

**Interfund Activity**

During the course of normal operations, the District has numerous transactions between funds, including expenditures and transfers of resources to provide services and improve assets. Operating subsidies are recorded as operating transfers. The classification of amounts recorded as subsidies, advances or equity contributions is based on the intent of the District at the time of the transaction.

**Employer Contributions to Cost-Sharing Plans**

The District recognizes the disbursement for employer contributions to cost-sharing pension plans when they are paid. As described later in the notes, the employer contributions include portions for pension benefits and for postretirement health care benefits.

**Pensions**

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

**Budgetary Process**

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

**Painesville City Local School District**  
**Lake County, Ohio**  
**Notes to the Basic Financial Statements**  
**For the Fiscal Year Ended June 30, 2015**

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Tax Budget

Prior to January 15, the Superintendent and Treasurer submit to the Board of Education a proposed operating budget for the fiscal year commencing the following July 1. The budget includes proposed expenditures and the means of financing for all funds. Public hearings are publicized and conducted to obtain taxpayers' comments. The express purpose of this budget document is to reflect the need for existing (or increased) tax rates.

By no later than January 20, the Board-adopted budget is filed with the Lake County Budget Commission for rate determination.

Estimated Resources

Prior to April 1, the Board accepts, by formal resolution, the tax rates as determined by the County Budget Commission and receives the Commission's certificate of estimated resources which states the projected receipts of each fund. Prior to June 30, the District must revise its budget so that total contemplated expenditures from any fund during the ensuing year will not exceed the amount stated in the certificate of estimated resources. The revised budget then serves as the basis for the appropriation measure. On or about July 1, the certificate is amended to include any unencumbered cash balances from the preceding year. The certificate may be further amended during the year if projected increases or decreases in receipts are identified by the District Treasurer. The amounts reported as the original budgeted amounts in the budgetary statements reflect the amounts in the amended 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 amended certificate issued during fiscal year 2015.

Appropriations

Upon receipt from the County Auditor of an amended certificate of estimated resources based on final assessed values and tax rates or a certificate saying no new certificate is necessary, the annual appropriation resolution must be legally enacted by the Board of Education at the fund level of expenditures, which are the legal levels of budgetary control. Prior to the passage of the annual appropriation measure, the Board may pass a temporary appropriation measure to meet the ordinary expenses of the District. The appropriation resolution, by fund, must be within the estimated resources as certified by the County Budget Commission and the total of expenditures and encumbrances may not exceed the appropriation totals at any level of control.

Any revisions that alter the total of any fund appropriation must be approved by the Board of Education. The Board may pass supplemental fund appropriations so long as the total appropriations by fund does not exceed the amounts set forth in the most recent Certificate of Estimated Resources. During the year, several supplemental appropriations were legally enacted. The budget figures, which appear in the statements of budgetary comparisons, represent the final appropriation amounts, including all supplemental appropriations. Formal budgetary integration is employed as a management control device during the year for all funds, other than agency funds, consistent with statutory provisions.

**Painesville City Local School District**  
**Lake County, Ohio**  
**Notes to the Basic Financial Statements**  
**For the Fiscal Year Ended June 30, 2015**

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Lapsing of Appropriations

At the close of each year, the unencumbered balance of each appropriation reverts to the respective fund from which it was appropriated and becomes subject to future appropriation. Encumbered appropriations are carried forward to the succeeding fiscal year and are not reappropriated.

While the District is reporting financial position, results of operations and changes in fund balances on the cash basis, 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 Cash Receipts, Cash Disbursements and Changes in Fund Cash Balance – Budget and Actual (Budgetary Basis) presented for the general fund, special levy, and classroom facilities maintenance are presented on the budgetary basis to provide a meaningful comparison of actual results with the budget. The difference between the budget basis and the cash basis is outstanding year end encumbrances are treated as disbursements (budget) rather than a reservation of fund balance (cash).

The following table summarizes the adjustments necessary to reconcile the cash basis statement to the budgetary basis statement for the general fund, special levy fund, and classroom facilities maintenance:

Net Change in Fund Cash Balance:

	General	Special Levy	Classroom Facilities Maintenance
Cash Basis	\$797,387	\$898,304	\$80,714
Adjustment for Encumbrances	(157,356)	0	(12,981)
Funds Budgeted Elsewhere	(8,839)	0	0
Budget Basis	<u>\$631,192</u>	<u>\$898,304</u>	<u>\$67,733</u>

**Long-Term Debt**

Bonds and other long-term debt issuances are not recognized as a liability in the financial statements under the cash basis of accounting. These statements report proceeds of debt when cash is received, and debt service disbursements for debt principal payments.

**Fund Cash Balance**

In accordance with Governmental Accounting Standards Board Statement No. 54, *Fund Balance Reporting*, the District classifies its fund cash balance based on the purpose for which the resources were received and the level of constraint placed on the resources. The following categories are used:

Nonspendable – resources that are not in spendable form or have legal or contractual requirements to maintain the balance intact.



**Painesville City Local School District  
Lake County, Ohio  
Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2015**

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Restricted – resources that have external purpose restraints imposed on them by providers, such as creditors, grantors, or other regulators.

Committed – resources that are constrained for specific purposes that are internally imposed by the government at its highest level of decision making authority, the Board of Education.

Assigned – resources that are intended to be used for specific purposes as approved through the District’s formal purchasing procedure by the Treasurer.

Unassigned – residual fund balance within the General Fund that is not restricted, committed, or assigned. In other governmental funds, the unassigned classification is used only to report a deficit cash balance resulting from incurred expenses for specific purposes exceeding amounts which had been restricted, committed or assigned for said purposes.

The District considers committed, assigned, and unassigned fund balances, respectively, to be spent when disbursements have incurred for purposes for which any of the unrestricted fund cash balance classifications could be used.

**Net Cash Position**

Net cash position are reported as restricted when enabling legislation or creditors, grantors or laws or regulations of other governments have imposed limitations on its use.

The District first applies restricted resources when a disbursement is incurred for purposes for which both restricted and unrestricted net cash position are available.

**Note 3 - Equity in Pooled Cash and Cash Equivalents**

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The District maintains a cash and investment pool used by all funds. Each fund type's portion of this pool is displayed on the statement of net position and balance sheet as "Equity in Pooled Cash and Cash Equivalents."

State statute requires the classification of monies held by the District into three categories:

Active Monies - Those monies required to be kept in a "cash" or "near cash" status for immediate use by the District. Such monies must by law be maintained either as cash in the District treasury, in depository accounts payable or withdrawable on demand.

Inactive Monies – Those monies not required for use within the current two year period of designated depositories. Ohio law permits inactive monies to be deposited or invested as certificates of deposit maturing not later than the end of the current period of designated depositories, or as savings or deposit accounts, including, but not limited to passbook accounts.

Interim Monies – 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. Ohio law permits interim monies to be invested or deposited in the following securities:

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- (1) Bonds, notes, or other obligations of or guaranteed by the United States, or those for which the faith of the United States is pledged for the payment of principal and interest.
- (2) Bonds, notes, debentures, or other obligations or securities issued by any federal governmental agency.
- (3) No-load money market mutual funds consisting exclusively of obligations described in (1) or (2) above and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions.
- (4) Interim deposits in the eligible institutions applying for interim monies to be evidenced by time certificates of deposit maturing not more than one year from date of deposit, or by savings or deposit accounts, including, but limited to, passbook accounts.
- (5) Bonds, and other obligations of the State of Ohio.
- (6) The Ohio State Treasurer's investment pool (STAR Ohio).
- (7) Commercial paper and banker's acceptances which meet the requirements established by Ohio Revised Code, Sec. 135.142.
- (8) Under limited circumstances, corporate debt interests in either of the two highest rating classifications by at least two nationally recognized rating agencies.

Protection of the District's deposits is provided by the Federal Deposit Insurance Corporation, 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 moneys deposited with the institution.

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 District, and must be purchased with the expectation that it will be held to maturity.

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

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**Deposits**

Custodial credit risk is the risk that in the event of a bank failure, the District’s deposits may not be returned to it. The District’s policy for deposits is any balance not covered by depository insurance will be collateralized by the financial institutions with pledged securities. As of June 30, 2015, \$509,045 of the District’s bank balance of \$759,045 was exposed to custodial risk as it was not FDIC insured.

Ohio Revised Code Chapter 135, Uniform Depository Act, authorizes pledging of pooled securities in lieu of specific securities. Specifically, a designated public depository may pledge a single pool of eligible securities to secure repayment of all public monies deposited in the financial institution, provided that all times the total value of the securities so pledged is at least equal to 105% of the total amount of all public deposits secured by the pool, including the portion of such deposits covered by any federal deposit insurance.

**Investments**

Investments are reported at fair value. As of June 30, 2015, the District had the following investments (there were no long-term investments; for financial statement reporting purposes the investments below are considered cash equivalents):

Investment Type	Fair Value	Weighted Average Maturity (Years)
Money Market Funds	\$961,487	0.00
Negotiable CD's	4,255,054	1.33
STAR Ohio	5,561,014	0.15
Total Fair Value	<u>\$10,777,555</u>	
Portfolio Weighted Average Maturity		0.60

Interest Rate Risk - In accordance with the investment policy, the District manages its exposure to declines in fair values by limiting the weighted average maturity of its investment portfolio to three years.

Credit Risk – It is the District’s policy to limit its investments that are not obligations of the U.S. Government or obligations explicitly guaranteed by the U.S. Government to investments which have a credit quality rating of the top 2 ratings issued by nationally recognized statistical rating organizations. The District’s investments in Money Market Funds and negotiable CD’s were not rated by Standard & Poor’s and Fitch Ratings and by Moody’s Investors Service. Investments in STAR Ohio were rated AAAM by Standard & Poor’s.

Concentration of Credit Risk – The District’s investment policy allows investments in Federal Agencies or Instrumentalities. All investments were issued or guaranteed by the federal government. At year end, the District’s allocations of investments (cash equivalents) were as follows: Money Market Accounts (9%), negotiable CD’s (39%), and STAROhio (52 %).

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Custodial Credit Risk is the risk that in the event of the failure of the counterparty, the District will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. All of the District’s securities are either insured and registered in the name of the District or at least registered in the name of the District.

**Note 4 - Property Taxes**

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Property taxes are levied and assessed on a calendar year basis. Second half distributions occur in a new fiscal year. Property taxes include amounts levied against all real and public utility personal property located in the District. Real property taxes are levied after April 1 on the assessed value listed as of the prior January 1, the lien date. Public utility property taxes attached as a lien on December 31 of the prior year, were levied April 1 and are collected with real property taxes. Assessed values for real property taxes are established by State law at 35 percent of appraised market value. All property is required to be revalued every six years. Public utility property taxes are assessed on real property at 35 percent of true value.

Real property taxes are payable annually or semi-annually. If paid annually, payment is due December 31; if paid semi-annually, the first payment is due December 31 with the remainder payable by June 20. Under certain circumstances, State statute permits alternate payment dates to be established. If paid annually, payment is due April 30; if paid semi-annually, the first payment is due April 30, with the remainder payable by September 20. The District receives property taxes from Lake County. The County Auditor periodically advances to the District its portion of the taxes collected. Second-half real property tax payments collected by the County by June 30, 2015, are available to finance fiscal year 2016 operations. The amount available for advance can vary based on the date the tax bills are sent.

The assessed values upon which the fiscal year 2015 taxes were collected are:

	Second Half 2014 Amount	First Half 2015 Amount
Agricultural/Residential and Other Real Estate	\$178,074,080	\$175,874,190
Public Utility Personal	2,060,760	2,171,370
Total	<u>\$180,134,840</u>	<u>\$178,045,560</u>

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**Note 5 - Long-Term Debt**

	<u>Maturity Dates</u>	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due In One Year</u>
<b>Governmental Activities:</b>						
General Obligation Bonds:						
2005 School Improvement -						
Current Interest Bonds - 4.87%	12/1/33	1,310,000	0	(925,000)	385,000	385,000
Capital Appreciation Bonds	12/1/33	287,372	0	(151,124)	136,248	136,248
Accreted Interest	12/1/15	407,769	55,420	(233,876)	229,313	0
2012 Advance Refunding of 2004 OSFC -						
Current Interest Bonds	12/1/32	8,180,000	0	(125,000)	8,055,000	125,000
Capital Appreciation Bonds	12/1/26	74,986	0	0	74,986	0
Accreted Interest	12/1/26	44,710	32,180	0	76,890	0
Premium on Refunding	12/1/32	989,282	0	(53,475)	935,807	0
2013 Advance Refunding of 2004 OSFC -						
Current Interest Bonds	12/1/32	8,300,000	0	(140,000)	8,160,000	140,000
Capital Appreciation Bonds	12/1/20	34,995	0	0	34,995	0
Accreted Interest	12/1/20	36,573	54,801	0	91,374	0
Premium on Refunding	12/1/32	1,233,970	0	(66,701)	1,167,269	0
2014 Advance Refunding of 2005 OSFC -						
Current Interest Bonds	12/1/24	7,515,000	0	(200,000)	7,315,000	700,000
Capital Appreciation Bonds	12/1/16	664,994	0	0	664,994	0
Accreted Interest	12/1/16	20,195	139,817	0	160,012	0
Premium on Refunding	12/1/24	603,688	0	(54,881)	548,807	0
Total Long Term Debt		<u>\$29,703,534</u>	<u>\$282,218</u>	<u>(\$1,950,057)</u>	<u>\$28,035,695</u>	<u>\$1,486,248</u>

Principal and interest requirements to retire general obligation debt outstanding at year end are as follows:

Fiscal Year Ending June 30	<u>Current Interest Bonds and Notes Payable</u>			<u>Capital Appreciation Bonds</u>		
	<u>Principal</u>	<u>Interest</u>	<u>Total</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2016	\$1,350,000	\$607,390	\$1,957,390	\$136,248	\$248,752	\$385,000
2017	275,000	600,440	875,440	664,994	425,006	1,090,000
2018	1,215,000	586,228	1,801,228	9,693	135,307	145,000
2019	1,230,000	561,876	1,791,876	5,490	139,510	145,000
2020	830,000	541,471	1,371,471	12,650	577,350	590,000
2021-2025	6,860,000	2,301,087	9,161,087	7,162	582,838	590,000
2026-2030	6,560,000	3,490,156	10,050,156	74,986	1,995,014	2,070,000
2031-2033	5,595,000	277,064	5,872,064	0	0	0
Total	<u>\$23,915,000</u>	<u>\$8,965,712</u>	<u>\$32,880,712</u>	<u>\$911,223</u>	<u>\$4,103,777</u>	<u>\$5,015,000</u>

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**Note 6 – Lessor**

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Headstart – In July 2011, the District entered into a 3 year lease with Lake-Geauga United Head Start to lease property for use at a rate of \$114,828 per year. Starting fiscal year 2015, the District’s annual lease payment will be \$121,763 for year one of the lease, for fiscal year 2016, the annual lease payment will be \$125,585 for year two, and for fiscal year 2017, the annual lease payment will be \$129,408 for year three.

The lease meets the criteria of a capital lease and therefore has been recorded as a sale since all the benefits and risks of ownership have been transferred to the lessee.

Rental payments received for FY 2015 were \$121,763.

**Note 7 – Defined Benefit Pension Plans**

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**Net Pension Liability**

For fiscal year 2015, Governmental Accounting Standards Board (GASB) Statement No. 68, “Accounting and Financial Reporting for Pensions” and GASB Statement No. 71, “Pension Transition for Contributions Made Subsequent to the Measurement Date—an amendment of GASB Statement No. 68” were effective. These GASB pronouncements had no effect on beginning net position as reported June 30, 2014, as the net pension liability is not reported in the accompanying financial statements. The net pension liability has been disclosed below.

Pensions are a component of exchange transactions—between an employer and its employees—of salaries and benefits for employee services. Pensions are provided to an employee—on a deferred-payment basis—as part of the total compensation package offered by an employer for employee services each financial period.

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

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

GASB 68 assumes the liability is solely the obligation of the employer, because (1) they benefit from employee services; and (2) State statute requires all funding to come from these employers. All contributions to date have come solely from these employers (which also includes costs paid in the form of withholdings from employees). State statute requires the pension plans to amortize unfunded liabilities within 30 years. If the amortization period exceeds 30 years, each pension plan’s board must propose corrective action to the State legislature. Any resulting legislative change to benefits or funding could significantly affect the net pension liability. Resulting adjustments to the net pension liability would be effective when the changes are legally enforceable.

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

Plan Description – District non-teaching employees participate in SERS, a cost-sharing multiple-employer defined benefit pension plan administered by SERS. SERS provides retirement, disability and survivor benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Authority to establish and amend benefits is provided by Ohio Revised Code Chapter 3309. SERS issues a publicly available, stand-alone financial report that includes financial statements, required supplementary information and detailed information about SERS’ fiduciary net position. That report can be obtained by visiting the SERS website at [www.ohsers.org](http://www.ohsers.org) under Employers/Audit Resources.

Age and service requirements for retirement are as follows:

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

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

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

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

Funding Policy – Plan members are required to contribute 10 percent of their annual covered salary and the District is required to contribute 14 percent of annual covered payroll. The contribution requirements of plan members and employers are established and may be amended by the SERS’ Retirement Board up to statutory maximum amounts of 10 percent for plan members and 14 percent for employers. The Retirement Board, acting with the advice of the actuary, allocates the employer contribution rate among four of the System’s funds (Pension Trust Fund, Death Benefit Fund, Medicare B Fund, and Health Care Fund). For the fiscal year ended June 30, 2015, the allocation to pension, death benefits, and Medicare B was 13.18 percent. The remaining 0.82 percent of the 14 percent employer contribution rate was allocated to the Health Care Fund.

The District’s contractually required contribution to SERS was \$765,528 for fiscal year 2015.

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

Plan Description – District licensed teachers and other faculty members participate in STRS Ohio, a cost-sharing multiple-employer public employee retirement system administered by STRS. STRS provides retirement and disability benefits to members and death and survivor benefits to beneficiaries. STRS

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issues a stand-alone financial report that includes financial statements, required supplementary information and detailed information about STRS' fiduciary net position. That report can be obtained by writing to STRS, 275 E. Broad St., Columbus, OH 43215-3771, by calling (888) 227-7877, or by visiting the STRS Web site at [www.strsoh.org](http://www.strsoh.org).

New members have a choice of three retirement plans; a Defined Benefit (DB) Plan, a Defined Contribution (DC) Plan and a Combined Plan. Benefits are established by Ohio Revised Code Chapter 3307. The DB plan offers an annual retirement allowance based on final average salary multiplied by a percentage that varies based on years of service. Effective August 1, 2015, the calculation will be 2.2 percent of final average salary for the five highest years of earnings multiplied by all years of service. With certain exceptions, the basic benefit is increased each year by two percent of the original base benefit. For members retiring August 1, 2013, or later, the first two percent is paid on the fifth anniversary of the retirement benefit. Members are eligible to retire at age 60 with five year of qualifying service credit, or age 55 with 25 years of service, or 30 years of service regardless of age. Age and service requirements for retirement will increase effective August 1, 2015, and will continue to increase periodically until they reach age 60 with 35 years of service or age 65 with five year of service on August 1, 2026.

The DC Plan allows members to place all their member contributions and 9.5 percent of the 14 percent employer contributions into an investment account. Investment allocation decisions are determined by the member. The remaining 4.5 percent of the 14 percent employer rate is allocated to the defined benefit unfunded liability. A member is eligible to receive a retirement benefit at age 50 and termination of employment. The member may elect to receive a lifetime monthly annuity or a lump sum withdrawal.

The Combined Plan offers features of both the DB Plan and the DC Plan. In the Combined Plan, member contributions are allocated among investment choices by the member, and employer contributions are used to fund the defined benefit payment at a reduced level from the regular DB Plan. The defined benefit portion of the Combined Plan payment is payable to a member on or after age 60 with five years of services. The defined contribution portion of the account may be taken as a lump sum payment or converted to a lifetime monthly annuity at age 50.

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

A DB or Combined Plan member with five or more years of credited service who is determined to be disabled may qualify for a disability benefit. Eligible survivors of members who die before service retirement may qualify for monthly benefits. New members on or after July 1, 2013, must have at least ten years of qualifying service credit that apply for disability benefits. Members in the DC Plan who become disabled are entitled only to their account balance. If a member of the DC Plan dies before retirement benefits begin, the member's designated beneficiary is entitled to receive the member's account balance.



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Funding Policy – Employer and member contribution rates are established by the State Teachers Retirement Board and limited by Chapter 3307 of the Ohio Revised Code. The statutory maximum employee contribution rate was increased one percent July 1, 2014, and will be increased one percent each year until it reaches 14 percent on July 1, 2016. For the fiscal year ended June 30, 2015, plan members were required to contribute 12 percent of their annual covered salary. The District was required to contribute 14 percent; the entire 14 percent was the portion used to fund pension obligations. The fiscal year 2015 contribution rates were equal to the statutory maximum rates.

The District’s contractually required contribution to STRS was \$2,180,256 for fiscal year 2015.

**Net Pension Liability**

The net pension liability was measured as of June 30, 2014, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The District's proportion of the net pension liability was based on the District's share of contributions to the pension plan relative to the projected contributions of all participating entities. Following is information related to the proportionate share:

	<u>SERS</u>	<u>STRS</u>	<u>Total</u>
Proportionate Share of the Net Pension Liability	\$7,862,175	\$34,910,191	\$42,772,366
Proportion of the Net Pension Liability	0.155350%	0.14352477%	

**Actuarial Assumptions - SERS**

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

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

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

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Key methods and assumptions used in calculating the total pension liability in the latest actuarial valuation, prepared as of June 30, 2014, are presented below:

Wage Inflation	3.25 percent
Future Salary Increases, including inflation	4.00 percent to 22 percent
COLA or Ad Hoc COLA	3 percent
Investment Rate of Return	7.75 percent net of investments expense, including inflation
Actuarial Cost Method	Entry Age Normal

For post-retirement mortality, the table used in evaluating allowances to be paid is the 1994 Group Annuity Mortality Table set back one year for both men and women. Special mortality tables are used for the period after disability retirement.

The most recent experience study was completed June 30, 2010.

The long-term return expectation for the Pension Plan Investments has been determined using a building-block approach and assumes a time horizon, as defined in SERS' *Statement of Investment Policy*. A forecasted rate of inflation serves as the baseline for the return expectation. Various real return premiums over the baseline inflation rate have been established for each asset class. The long-term expected nominal rate of return has been determined by calculating a weighted averaged of the expected real return premiums for each asset class, adding the projected inflation rate, and adding the expected return from rebalancing uncorrelated asset classes. The target allocation and best estimates of arithmetic real rates of return for each major assets class are summarized in the following table:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long Term Expected Real Rate of Return</u>
Cash	1.00 %	0.00 %
US Stocks	22.50	5.00
Non-US Stocks	22.50	5.50
Fixed Income	19.00	1.50
Private Equity	10.00	10.00
Real Assets	10.00	5.00
Multi-Asset Strategies	<u>15.00</u>	7.50
Total	<u>100.00 %</u>	

**Discount Rate** The total pension liability was calculated using the discount rate of 7.75 percent. The projection of cash flows used to determine the discount rate assumed the contributions from employers and from the members would be computed based on contribution requirements as stipulated by State statute. Projected inflows from investment earning were calculated using the long-term assumed investment rate of return (7.75 percent). Based on those assumptions, the plan's fiduciary net position was projected to be available to make all future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefits to determine the total pension liability.

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***Sensitivity of the District's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate*** Net pension liability is sensitive to changes in the discount rate, and to illustrate the potential impact the following table presents the net pension liability calculated using the discount rate of 7.75 percent, as well as what each plan's net pension liability would be if it were calculated using a discount rate that is one percentage point lower (6.75 percent), or one percentage point higher (8.75 percent) than the current rate.

	1% Decrease (6.75%)	Discount Rate (7.75%)	1% Increase (8.75%)
District's proportionate share of the net pension liability	\$11,216,987	\$7,862,175	\$5,040,488

**Actuarial Assumptions - STRS**

The total pension liability in the June 30, 2014, actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	2.75 percent
Projected salary increases	2.75 percent at age 70 to 12.25 percent at age 20
Investment Rate of Return	7.75 percent, net of investment expenses
Cost-of-Living Adjustments (COLA)	2 percent simple applied as follows: for members retiring before August 1, 2013, 2 percent per year; for members retiring August 1, 2013, or later, 2 percent COLA paid on fifth anniversary of retirement date.

Mortality rates were based on the RP-2000 Combined Mortality Table (Projection 2022—Scale AA) for Males and Females. Males' ages are set-back two years through age 89 and no set-back for age 90 and above. Females younger than age 80 are set back four years, one year set back from age 80 through 89 and not set back from age 90 and above.

Actuarial assumptions used in the June 30, 2014, valuation are based on the results of an actuarial experience study, effective July 1, 2012.

The 10 year expected real rate of return on pension plan investments was determined by STRS' investment consultant by developing best estimates of expected future real rates of return for each major asset class. The target allocation and best estimates of geometric real rates of return for each major asset class are summarized as follows:

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<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long Term Expected Real Rate of Return</u>
Domestic Equity	31.00 %	8.00 %
International Equity	26.00	7.85
Alternatives	14.00	8.00
Fixed Income	18.00	3.75
Real Estate	10.00	6.75
Liquidity Reserves	<u>1.00</u>	3.00
Total	<u>100.00 %</u>	

**Discount Rate** The discount rate used to measure the total pension liability was 7.75 percent as of June 30, 2014. The projection of cash flows used to determine the discount rate assumes member and employer contributions will be made at the statutory contribution rates in accordance with rate increases described above. For this purpose, only employer contributions that are intended to fund benefits of current plan members and their beneficiaries are included. Projected employer contributions that are intended to fund the service costs of future plan members and their beneficiaries, as well as projected contributions from future plan members, are not included. Based on those assumptions, STRS' fiduciary net position was projected to be available to make all projected future benefit payments to current plan members as of June 30, 2014. Therefore, the long-term expected rate of return on pension plan investments of 7.75 percent was applied to all periods of projected benefit payment to determine the total pension liability as of June 30, 2014.

**Sensitivity of the District's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate** The following table presents the District's proportionate share of the net pension liability calculated using the current period discount rate assumption of 7.75 percent, as well as what the District's proportionate share of the net pension liability would be if it were calculated using a discount rate that is one-percentage-point lower (6.75 percent) or one-percentage-point higher (8.75 percent) than the current rate:

	1% Decrease <u>(6.75%)</u>	Current Discount Rate <u>(7.75%)</u>	1% Increase <u>(8.75%)</u>
District's proportionate share of the net pension liability	\$49,977,745	\$34,910,191	\$22,168,111

**Note 8 - Post Employment Benefits**

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**School Employees Retirement System of Ohio**

Plan Description

In addition to a cost-sharing multiple-employer defined benefit pension plan, the School Employees Retirement System of Ohio (SERS) administers two postemployment benefit plans.

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Medicare Part B Plan

The Medicare B plan reimburses Medicare Part B premiums paid by eligible retirees and beneficiaries as set forth in Ohio Revised Code (ORC) 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 premium for calendar year 2015 was \$104.90 for most participants, but could be as high as \$335.70 depending on their income; SERS' reimbursement to retirees was \$45.50.

The Retirement Board, acting with the advice of the actuary, allocates a portion of the current employer contribution rate to the Medicare B Fund. For fiscal year 2015, the actuarially required allocation was .76%. District contributions for the years ended June 30, 2015, 2014 and 2013 were \$41,557, \$38,477, and \$38,857, respectively, which equaled the required contributions each year.

Health Care Plan

ORC 3309.375 and 3309.69 permit SERS to offer health care benefits to eligible retirees and beneficiaries. SERS' Retirement Board reserves the right to change or discontinue any health plan or program. SERS offers several types of health plans from various vendors, including HMO's, PPO's, Medicare Advantage and traditional indemnity plans. A prescription drug program 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 ORC provides the statutory authority to fund SERS' postemployment benefits through employer contributions. Active members do not make contributions to the postemployment benefit plans.

The Health Care Fund was established under, and is administered in accordance with, Internal Revenue Code 105(e). Each year after the allocation for statutorily required benefits, the Retirement Board allocates the remainder of the employer 14% contribution to the Health Care Fund. At June 30, 2015, the health care allocation was 0.14%. 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% of that employer's SERS-covered payroll; nor may SERS collect in aggregate more than 1.5% of the total statewide SERS-covered payroll for the health care surcharge. For fiscal year 2015, the minimum compensation level was established at \$20,250. The surcharge, added to the unallocated portion of the 14% employer contribution rate is the total amount assigned to the Health Care Fund. The District contributions assigned to health care for the years ended June 30, 2015, 2014, and 2013 were \$7,655, \$8,320, and \$28,495, respectively.

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. Premiums vary depending on the plan selected, qualified years of service, Medicare eligibility, and retirement status.

The financial reports of SERS' Health Care and Medicare B plans are included in its *Comprehensive Annual Financial Report*. The report can be obtained on SERS' website at [www.ohsers.org](http://www.ohsers.org) under *Employers/Audit Resources*.

## **State Teachers Retirement System of Ohio**

### Plan Description

STRS Ohio administers a pension plan that is comprised of: a Defined Benefit Plan; a self-directed Defined Contribution Plan and a Combined Plan that is a hybrid of the Defined Benefit and the Defined Contribution Plan.

Ohio law authorized STRS Ohio to offer a cost-sharing, multiple-employer health care plan. STRS Ohio provides access to health care coverage to eligible retirees who participated in the Defined Benefit or Combined Plans. Coverage under the current program includes hospitalization, physicians' fees, prescription drugs and partial reimbursement of monthly Medicare Part B premiums.

Pursuant to 3307 of the Revised Code, the Retirement Board has discretionary authority over how much, if any, of the associated health care costs will be absorbed by STRS Ohio. All health care plan enrollees, for the most recent year, pay a portion of the health care costs in the form of a monthly premium.

STRS Ohio issues a stand-alone financial report. Interested parties can view the most recent *Comprehensive Annual Financial Report* by visiting [www.strsoh.org](http://www.strsoh.org) or by requesting a copy by calling toll-free 1-888-227-7877.

### Funding Policy

Under Ohio law, funding for post-employment health care may be deducted from employer contributions. Of the 14% employer contributions rate, 0% of covered payroll was allocated to post-employment health care for the year ended June 30, 2015, 1% of covered payroll was allocated to post-employment health care for the years ended June 30, 2014 and 2013. The 14% employer contribution rate is the maximum rate established under Ohio law. The District contributions for the years ended June 30, 2015, 2014, and 2013 were \$0, \$145,551, and \$136,658, 0% has been contributed for fiscal year 2015 and 100% for fiscal years 2014 and 2013.

## **Note 9 – Contingent Liabilities**

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### **Grants**

The Auditor of State has performed a statewide review of supporting documentation for student attendance data reported to the Ohio Department of Education. The District received a clean audit on the student attendance data.

The 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 are subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the General Fund or other applicable funds. However, the effect of any such disallowed claims on the overall financial position of the District at June 30, 2015, if applicable, cannot be determined at this time.

### **Litigation**

The District is not currently a party to any significant legal proceedings.

**Painesville City Local School District  
Lake County, Ohio  
Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2015**

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**State Foundation Funding**

School District Foundation funding is based on the annualized full-time equivalent (FTE) enrollment of each student. Effective for the 2014-2015 school year, traditional school districts must comply with minimum hours of instruction, instead of a minimum number of school days each year. The funding formula the Ohio Department of Education (ODE) is legislatively required to follow will continue to adjust as enrollment information is updated by the school district, which can extend past the fiscal year end. As of the date of this report, ODE has not finalized the impact of enrollment adjustments to the June 30, 2015 Foundation funding for the school district; therefore, the financial statement impact is not determinable at this time.

**Note 10 – Lake County School Financing District**

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The Board of Education of the Lake County Educational Service Center has, by a resolution adopted February 6, 1990, pursuant to Section 3311.50 of the Revised Code, created a county school financing district known as the Lake County School Financing District (the “Financing District”) for the purpose of levying taxes for the provision of the following specified educational programs and services by the school districts that are part of the Financing District: the provision of necessary personnel, materials, supplies and transportation for instruction in language arts, social studies, mathematics, fine and practical arts, health and physical education, science and business education.

The Board of Education of the Lake County Educational Service Center acts as the taxing authority of the Financing District pursuant to Section 3311.50 of the Revised Code. The Financing District receives settlements of taxes levied and distributes within ten days to each of the Member Districts (including Painesville City Local School District) each such Member District’s proportionate share of that tax settlement. Each Member District’s proportionate share is a fraction, the numerator being Member District’s total pupil population and the denominator being the aggregate pupil population of all Member Districts for that year.

**Note 11 – Jointly Governed Organizations**

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Auburn Career Center – The Auburn Career Center is a joint vocational school district, which is a jointly governed organization among eleven school districts. The students of each participating school district may attend classes offered at the vocational facility. Each participant’s control over the operation of the Auburn Career Center is limited to representation on the board. Continued existence of the Auburn Career Center is not dependent on the District’s continued participation. Financial information can be obtained by writing the Auburn Career Center, 8140 Auburn Road, Painesville, Ohio 44077.

Lake Geauga Computer Association - The Lake Geauga Computer Association (LGCA) is a jointly governed organization that was first formed for the purpose of providing computer services for accounting, grading, scheduling, EMIS and other applications to its eighteen (18) member school districts. Each of the districts supports LGCA based upon a per pupil charge. The executive committee (governing board) consists of the superintendents and treasurers of the member school districts. The degree of control exercised by any participating school district is limited to its representation on the governing board. LGCA's continued existence is not dependent on the District's continued participation. LGCA is not accumulating significant financial resources or experiencing financial distress, which would cause additional financial benefits or burden on the District. Financial information can be obtained from: Lake Geauga Computer Association, 8140 Auburn Road, Painesville, Ohio 44077.

**Painesville City Local School District**  
**Lake County, Ohio**  
**Notes to the Basic Financial Statements**  
**For the Fiscal Year Ended June 30, 2015**

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Ohio Schools Council Association - The Ohio Schools Council Association (the Council) is a jointly governed organization among eighty-two school districts. The jointly governed organization was formed to bring quality products and services at the lowest possible cost to the member districts. 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. Financial information can be obtained by contacting the Executive Secretary of the Ohio Schools Council at 6393 Oak Tree Blvd. #377, Independence, Ohio 44131.

The District also participates in the Council's prepaid natural gas program, which was implemented during fiscal year 1999. 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.

**Note 12 – Claims Servicing Pool**

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The District participates in Lake County Council of Governments Health Care Benefits Program (HCBP) Self-Insurance Program, a shared risk pool, comprised of nine Lake County school districts plus Lakeland Community College and Lake County Educational Service Center. Each school district has a representative on the assembly (usually the superintendent or treasurer). Each member pays an administrative fee to the pool. The plan's business and affairs are conducted by a five member Board of Directors elected by the HCBP's assembly. The assembly elects officers for one or two year terms to serve on the Board of Directors.

**Note 13 – Risk Management**

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The 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 2015, the District contracted with Schools of Ohio Risk Sharing Authority (SORSA) for property and general liability insurance. There is a \$1,000,000 limit of liability.

Commercial umbrella liability is protected by SORSA with a \$15,000,000 single and aggregate occurrence limit. Vehicles are covered by SORSA and have a \$1,000 deductible for comprehensive collision. Automobile liability has a \$1,000,000 combined single limit of liability. Settled claims have not exceeded this commercial coverage in any of the past three years.

The District has elected to provide medical coverage through the Lake County Council of Governments Health Care Benefits Program.

**Note 14 – OSBA Insurance Purchasing Pool**

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



**Painesville City Local School District  
 Lake County, Ohio  
 Notes to the Basic Financial Statements  
 For the Fiscal Year Ended June 30, 2015**

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The intent of the GRP is to achieve the benefit of a reduced premium for the District by virtue of its grouping and representation with other participants in the GRP. The workers compensation experience of the participating school districts is calculated as one experience and a common premium rate is applied to all school districts in the GRP. Each participant pays its workers' compensation premium to the State based on the rate for the GRP rather than its individual rate. Total savings are then calculated and each participant's individual performance is compared to the overall savings percentage of the GRP. A participant will then either receive money from or be required to contribute to the "Equity Pooling Fund". This "equity pooling" arrangement insures that each participant shares equally in the overall performance of the GRP. Participation in the GRP is limited to school districts that can meet the GRP's selection criteria. The firm of CompManagement & Co. provides administrative, cost control and actuarial services to the GRP.

**Note 15 – Fund Balance Reserves for Set-Asides**

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The 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.

For fiscal year ended June 30, 2015, the District was no longer required to set aside funds in the budget reserve set-aside, with the exception of refund monies received from the Bureau of Workers' Compensation, which must be spent for specified purposes.

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

	<u>Capital Acquisition</u>	<u>Budget Stabilization</u>
Set Aside Reserve Balance as of June 30, 2014	\$0	\$105,468
Current Year Set Aside Requirements	518,677	0
Current Year Offsets	(19,060,566)	0
Total	<u>(\$18,541,889)</u>	<u>\$105,468</u>
Set Aside Reserve Balance		
Carried Forward to Future Years	\$0	\$0
Set Aside Balance as of June 30, 2015	0	105,468
Committed Balance as of June 30, 2015	<u>0</u>	<u>433,222</u>
Restricted Cash as of June 30, 2015	<u>\$0</u>	<u>\$538,690</u>

Effective April 10, 2001, Am. Sub. Senate Bill 345 amended ORC Section 5705.29 effectively eliminating the requirement for the District to establish and maintain a budget stabilization reserve. The non-BWC (Bureau of Workers' Compensation) portion of monies previously reported in the budget stabilization reserve are now reported as designated fund balance for budget stabilization in the General Fund. On June 11, 2001, the Board passed a resolution authorizing the transfer of the non-BWC portion of the

**Painesville City Local School District**  
**Lake County, Ohio**  
**Notes to the Basic Financial Statements**  
**For the Fiscal Year Ended June 30, 2015**

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budget stabilization reserve to the General Fund as a fund balance. The money set aside in this account can only be used in the event of funding deficit or catastrophic emergency and then only by Board resolution. The District is still required by State law to maintain the capital acquisition reserve.

**Note 16 – Interfund Transactions**

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Interfund transactions at June 30, 2015, consisted of the following transfers in and transfers out, advances in and advances out:

	Transfers		Advances	
	In	Out	In	Out
General Fund	\$0	\$198,442	\$194,566	\$0
Permanent Improvement Fund	1,590,571	0	0	0
Other Governmental Funds	199,204	1,591,333	0	194,566
Total All Funds	<u>\$1,789,775</u>	<u>\$1,789,775</u>	<u>\$194,566</u>	<u>\$194,566</u>

Interfund balances/transfers are used to move receipts from the fund that statute or budget requires to collect them to the fund that statute or budget requires to expend them and unrestricted receipts collected in the general fund to finance various programs accounted for in other funds in accordance with budgetary authorizations; to segregate and to return money to the fund from which it was originally provided once a project is completed.

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**Painesville City Local School District**  
**Lake County, Ohio**  
**Notes to the Basic Financial Statements**  
**For the Fiscal Year Ended June 30, 2015**

**Note 17 – Fund Balances**

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

Fund Balances	General	Special Levy	Classroom Facilities Maintenance	Debt Service	Permanent Improvement	Other Governmental Funds	Total
<b>Restricted for:</b>							
Other Grants	\$0	\$0	\$0	\$0	\$0	\$88,788	\$88,788
Special Levy	0	2,313,007	0	0	0	0	2,313,007
District Managed Student Activity	0	0	0	0	0	99,596	99,596
Auxiliary Services	0	0	0	0	0	15,555	15,555
Improving Teacher Grants	0	0	0	0	0	7,960	7,960
Miscellaneous State Grants	0	0	0	0	0	15,201	15,201
Title VI B	0	0	0	0	0	30,966	30,966
Title III	0	0	0	0	0	11,412	11,412
Title I	0	0	0	0	0	95,506	95,506
Title IA	0	0	0	0	0	21,560	21,560
Public Preschool	0	0	0	0	0	14,650	14,650
Classroom Facilities Maintenance	0	0	1,453,802	0	0	0	1,453,802
Debt Service Payments	0	0	0	1,169,867	0	0	1,169,867
Food Service	0	0	0	0	0	267,078	267,078
Miscellaneous Federal Grants	0	0	0	0	0	20	20
Capital Improvements	0	0	0	0	2,045,932	0	2,045,932
<b>Total Restricted</b>	<b>0</b>	<b>2,313,007</b>	<b>1,453,802</b>	<b>1,169,867</b>	<b>2,045,932</b>	<b>668,292</b>	<b>7,650,900</b>
<b>Committed to:</b>							
Fund Deficit/Emergency	433,222	0	0	0	0	0	433,222
<b>Total Committed</b>	<b>433,222</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>433,222</b>
<b>Assigned to:</b>							
Public School Support	22,243	0	0	0	0	0	22,243
Budgetary Reserve	529,714	0	0	0	0	0	529,714
Encumbrances	159,922	0	0	0	0	0	159,922
<b>Total Assigned</b>	<b>711,879</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>711,879</b>
<b>Unassigned (Deficit)</b>	<b>2,279,877</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>2,279,877</b>
<b>Total Fund Balance</b>	<b>\$3,424,978</b>	<b>\$2,313,007</b>	<b>\$1,453,802</b>	<b>\$1,169,867</b>	<b>\$2,045,932</b>	<b>\$668,292</b>	<b>\$11,075,878</b>

**Note 18 – Compliance**

Ohio Administrative Code, Section 117-2-03(B), requires the District to prepare its annual financial report in accordance with generally accepted accounting principles. However, the District prepared its financial statements on a cash basis, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. The accompanying financial statements omit assets, liabilities, deferred inflows, deferred outflows, net position/fund balances, and disclosures that, while material, cannot be determined at this time. The District can be fined and various other administrative remedies may be taken against the District.

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**PAINESVILLE CITY LOCAL SCHOOL DISTRICT  
LAKE COUNTY**

**FEDERAL AWARDS RECEIPTS AND EXPENDITURES SCHEDULE  
FOR THE YEAR ENDED JUNE 30, 2015**

Federal Grantor Pass Through Grantor Program Title	Federal CFDA Number	Receipts	Non-Cash Receipts	Disbursements	Non-Cash Disbursements
<b><u>U.S. Department of Agriculture</u></b>					
<i>Passed Through Ohio Department of Education</i>					
<i>Nutrition Cluster:</i>					
School Breakfast Program	10.553	\$344,500	\$0	\$344,500	\$0
National School Lunch Program	10.555	1,013,428	124,030	1,013,428	124,030
<b>Total Nutrition Cluster</b>		<u>1,357,928</u>	<u>124,030</u>	<u>1,357,928</u>	<u>124,030</u>
<b>Total U.S. Department of Agriculture</b>		<u>1,357,928</u>	<u>124,030</u>	<u>1,357,928</u>	<u>124,030</u>
<b><u>U.S. Department of Education</u></b>					
<i>Passed Through Ohio Department of Education</i>					
<i>Special Education Cluster:</i>					
Special Education Grants to States	84.027	575,600	0	595,556	0
Special Education Preschool Grants	84.173	22,089	0	26,849	0
Total Special Education Cluster		<u>597,689</u>	<u>0</u>	<u>622,405</u>	<u>0</u>
Title I Grants to Local Educational Agencies	84.010	1,970,607	0	1,940,555	0
Improving Teacher Quality State Grants	84.367	163,457	0	205,351	0
English Language Acquisition Grants	84.365	162,647	0	181,901	0
Race to the Top - Stimulus	84.395	2,054	0	2,054	0
Total U.S. Department of Education		<u>2,896,454</u>	<u>0</u>	<u>2,952,266</u>	<u>0</u>
<b>Total Federal Assistance</b>		<u><b>\$4,254,382</b></u>	<u><b>\$124,030</b></u>	<u><b>\$ 4,310,194</b></u>	<u><b>\$124,030</b></u>

*The accompanying notes to this schedule are an integral part of this schedule.*

**PAINESVILLE CITY LOCAL SCHOOL DISTRICT  
LAKE COUNTY**

**NOTES TO THE FEDERAL AWARDS RECEIPTS AND EXPENDITURES SCHEDULE  
FISCAL YEAR ENDED JUNE 30, 2015**

**NOTE A - SIGNIFICANT ACCOUNTING POLICIES**

The accompanying Federal Awards Expenditures Schedule (the Schedule) reports the Painesville City Local School District (the District's) federal award programs' receipts and disbursements. The Schedule has been prepared on the cash basis of accounting.

**NOTE B - CHILD NUTRITION CLUSTER**

The District commingles cash receipts from the U.S. Department of Agriculture with similar State grants. When reporting expenditures on this Schedule, the District assumes it expends federal monies first.

**NOTE C – FOOD DONATIONS**

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



# Dave Yost • Auditor of State

## INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS REQUIRED BY GOVERNMENT AUDITING STANDARDS

Painesville City Local School District  
Lake County  
58 Jefferson Street  
Painesville, Ohio 44077

To the Board of Education:

We have audited, in accordance with auditing standards generally accepted in the United States and the Comptroller General of the United States' *Government Auditing Standards*, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Painesville City Local School District, Lake County, (the District) as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise the District's basic financial statements and have issued our report thereon dated March 17, 2016, wherein we noted the District uses a special purpose framework other than generally accepted accounting principles.

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

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

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, when performing their assigned functions, to prevent, or detect and timely correct misstatements. A *material weakness* is a deficiency, or combination of internal control deficiencies resulting in a reasonable possibility that internal control will not prevent or detect and timely correct a material misstatement of the District's financial statements. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all internal control deficiencies that might be material weaknesses or significant deficiencies. Given these limitations, we did not identify any deficiencies in internal control that we consider material weaknesses. However, unidentified material weaknesses may exist.

***Compliance and Other Matters***

As part of reasonably assuring whether the District's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could directly and materially affect the determination of financial statement amounts. However, opining on compliance with those provisions was not an objective of our audit and accordingly, we do not express an opinion. The results of our tests disclosed an instance of noncompliance or other matters we must report under *Government Auditing Standards* which is described in the accompanying schedule of findings as item 2015-001.

***Entity's Response to Findings***

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

***Purpose of this Report***

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



**Dave Yost**  
Auditor of State  
Columbus, Ohio

March 17, 2016





# Dave Yost • Auditor of State

## INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR FEDERAL PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY OMB CIRCULAR A-133

Painesville City Local School District  
Lake County  
58 Jefferson Street  
Painesville, Ohio 44077

To the Members of the Board:

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

We have audited the Painesville City Local School District's (the District) compliance with the applicable requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133, Compliance Supplement* that could directly and materially affect each of the Painesville City Local School District's major federal programs for the year ended June 30, 2015. The *Summary of Auditor's Results* in the accompanying schedule of findings identifies the District's major federal programs.

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

The District's Management is responsible for complying with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

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

Our responsibility is to opine on the District's compliance for each of the District's major federal programs based on our audit of the applicable compliance requirements referred to above. Our compliance audit followed auditing standards generally accepted in the United States of America; the standards for financial audits included in the Comptroller General of the United States' *Government Auditing Standards*; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. These standards and OMB Circular A-133 require us to plan and perform the audit to reasonably assure whether noncompliance with the applicable compliance requirements referred to above that could directly and materially affect a major federal program occurred. An audit includes examining, on a test basis, evidence about the District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

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

***Opinion on Each Major Federal Program***

In our opinion, the Painesville City Local School District complied, in all material respects with the compliance requirements referred to above that could directly and materially affect each of its major federal programs for the year ended June 30, 2015.

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

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

*A deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, when performing their assigned functions, to prevent, or to timely detect and correct, noncompliance with a federal program's applicable compliance requirement. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a federal program compliance requirement will not be prevented, or timely detected and corrected. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with federal program's applicable compliance requirement that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

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

This report only describes the scope of our internal control over compliance tests and the results of this testing based on OMB Circular A-133 requirements. Accordingly, this report is not suitable for any other purpose.



**Dave Yost**  
Auditor of State  
Columbus, Ohio

March 17, 2016

**PAINESVILLE CITY LOCAL SCHOOL DISTRICT  
LAKE COUNTY**

**SCHEDULE OF FINDINGS  
OMB CIRCULAR A -133 § .505  
JUNE 30, 2015**

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

<b>(d)(1)(i)</b>	<b>Type of Financial Statement Opinion</b>	Unmodified
<b>(d)(1)(ii)</b>	<b>Were there any material control weaknesses reported at the financial statement level (GAGAS)?</b>	No
<b>(d)(1)(ii)</b>	<b>Were there any significant deficiencies in internal control reported at the financial statement level (GAGAS)?</b>	No
<b>(d)(1)(iii)</b>	<b>Was there any reported material noncompliance at the financial statement level (GAGAS)?</b>	Yes
<b>(d)(1)(iv)</b>	<b>Were there any material internal control weaknesses reported for major federal programs?</b>	No
<b>(d)(1)(iv)</b>	<b>Were there any significant deficiencies in internal control reported for major federal programs?</b>	No
<b>(d)(1)(v)</b>	<b>Type of Major Programs' Compliance Opinion</b>	Unmodified
<b>(d)(1)(vi)</b>	<b>Are there any reportable findings under § .510(a)?</b>	No
<b>(d)(1)(vii)</b>	<b>Major Programs (list):</b>	Nutrition Cluster: School Breakfast Program, CFDA #10.553 and National School Lunch Program, CFDA #10.555.
<b>(d)(1)(viii)</b>	<b>Dollar Threshold: Type A/B Programs</b>	Type A: > \$ 300,000 Type B: all others
<b>(d)(1)(ix)</b>	<b>Low Risk Auditee?</b>	Yes

**PAINESVILLE CITY LOCAL SCHOOL DISTRICT  
LAKE COUNTY**

**SCHEDULE OF FINDINGS  
OMB CIRCULAR A -133 § .505  
JUNE 30, 2015**

<b>2. FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS</b>
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**FINDING NUMBER 2015-001**

**Noncompliance Finding**

Ohio Revised Code § 117.38 provides that each public office shall file a financial report for each fiscal year. The Auditor of State may prescribe forms by rule or may issue guidelines, or both, for such reports. If the Auditor of State has not prescribed a rule regarding the form for the report, the public office shall submit its report on the form utilized by the public office. Ohio Administrative Code § 117-2-03 further clarifies the requirements of Ohio Revised Code § 117.38.

Ohio Administrative Code § 117-2-03(B) requires the School District to prepare its annual financial report in accordance with accounting principles generally accepted in the United States of America. However, the School District prepared its financial statements and notes following the cash basis of accounting. This is a comprehensive basis other than generally accepted accounting principles. The accompanying financial statements and footnotes omit assets, liabilities, fund equities, and disclosures that, while material, cannot be determined at this time. Pursuant to Ohio Rev. Code § 117.38, the School District may be fined and subject to various other administrative remedies for its failure to file the required financial report within the required time limits.

We recommend the School District take the necessary steps to ensure the annual report is prepared in accordance with generally accepted accounting principles.

**Official's Response:**

The Board of Education acknowledges that the District should be reporting on a GAAP basis. The District is reporting on a cash basis with GAAP look-alike statements.

<b>3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS</b>
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None

PAINESVILLE CITY LOCAL SCHOOL DISTRICT  
LAKE COUNTY

SCHEDULE OF PRIOR AUDIT FINDINGS  
JUNE 30, 2015

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; <b><i>Explain</i></b>
2014-001	Not reporting on GAAP for the annual financial report	No	Repeated as 2015-001

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# Dave Yost • Auditor of State

**PAINESVILLE CITY LOCAL 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  
APRIL 5, 2016**