

PAINESVILLE CITY LOCAL SCHOOL DISTRICT



Basic Financial Statements

June 30, 2014

INDEPENDENT AUDITOR’S REPORT

Board of Education
Painesville City Local School District, Ohio
58 Jefferson Street
Painesville, Ohio 44077

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Painesville City Local School District (the District) as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the District's basic financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of 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 express opinions 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 about the financial statements are free from material misstatement.

An audit requires obtaining evidence about financial statements 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 Government’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 to opine on the effectiveness of the Government’s internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of management’s accounting policies and the reasonableness of significant accounting estimates, as well as our evaluation the overall financial statement presentation.

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

Opinions

In our opinion, the financial statements referred to previously present fairly, in all material respects, the respective cash financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the District, as of June 30, 2014, and the respective changes in cash financial position and the respective budgetary comparisons for the General Fund, Special Levy Fund and Classroom Facilities Maintenance Fund for the year then ended in accordance with the accounting basis described in Note 2.

Accounting Basis

Ohio Administrative Code Section 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, which is a basis other than generally accepted accounting principles. We did not modify our opinion regarding this matter.

Other Matters

Supplemental and Other Information

We audited to opine on the District's financial statements that collectively comprise its basic financial statements.

Management's Discussion & Analysis includes tables of net cash position, changes in net cash position, receipt sources, governmental activities and outstanding debt. These tables provide additional analysis and are not a required part of the basic financial statements.

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

Other than the aforementioned procedures applied to the tables, we applied no procedures to any other information in the Management's Discussion & Analysis, and 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 September 30, 2014, 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. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.

Plattenburg & Associates, Inc.

Plattenburg & Associates, Inc.
Cincinnati, Ohio
September 30, 2014

**Painesville City Local School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2014
(Unaudited)**

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, 2014. 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 2014 are as follows:

- Net cash position of governmental activities increased \$906,739 from 2013.
- General receipts accounted for \$33,526,703 in receipts or 83% of all receipts. Program specific receipts in the form of charges for services and sales, grants and contributions accounted for \$6,788,850 or 17% of total receipts of \$40,315,553.
- The District had \$39,408,814 in disbursements related to governmental activities; \$6,788,850 of these disbursements were offset by program specific charges for services, grants or contributions. General receipts of \$33,526,703 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 Building 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 2014?" 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.

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,

Painesville City Local School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2014
(Unaudited)

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, 2014
(Unaudited)**

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 2014 compared to 2013:

**Table 1
Net Cash Position**

	<u>Governmental Activities</u>	
	<u>2014</u>	<u>2013</u>
Assets:		
Current Assets	<u>9,157,243</u>	<u>8,250,504</u>
Total Assets	<u>9,157,243</u>	<u>8,250,504</u>
Net Cash Position:		
Restricted	6,529,652	5,761,893
Unrestricted	<u>2,627,591</u>	<u>2,488,611</u>
Total Net Cash Position	<u><u>\$9,157,243</u></u>	<u><u>\$8,250,504</u></u>

Over time, net cash position can serve as a useful indicator of a government’s financial position. At June 30, 2014, the District’s net cash position was \$9,157,243.

A portion of the District’s net position, \$6,529,652 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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Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2014
(Unaudited)**

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

**Table 2
Changes in Net Cash Position**

	Governmental Activities	
	2014	2013 Reclassified
Receipts:		
Program Cash Receipts:		
Charges for Services and Sales	\$1,515,030	\$1,892,416
Operating Grants and Contributions	5,273,820	6,132,981
General Receipts:		
Property Taxes	10,322,504	9,853,924
Grants and Entitlements	22,536,052	19,682,931
Investment Earnings	20,800	17,036
Other Receipts	647,347	581,459
Total Receipts	40,315,553	38,160,747
Disbursements:		
Instruction		
Regular	12,487,750	11,961,681
Special	6,273,735	5,908,435
Vocational	232,211	357,458
Other	2,907,946	2,432,987
Support Services:		
Pupil	1,676,997	1,690,637
Instructional Staff	2,586,263	2,575,969
General Administration	38,997	110,523
School Administration	3,447,498	3,196,402
Fiscal	603,433	527,853
Business	32,159	42,616
Operations and Maintenance	3,272,016	2,949,536
Pupil Transportation	1,199,021	1,179,903
Central	264,133	256,617
Operation of Non-Instructional Services	1,531,636	1,432,287
Extracurricular Activities	689,590	931,258
Capital Outlay	201,441	415,842
Debt Service:		
Principal Retirement	1,039,721	859,698
Interest and Fiscal Charges	924,267	1,047,350
Total Disbursements	39,408,814	37,877,052
Increase (Decrease) in Net Cash Position	906,739	283,695
Net Cash Position Beginning of Year	8,250,504	7,966,809
Net Cash Position End of Year	<u>\$9,157,243</u>	<u>\$8,250,504</u>

**Painesville City Local School District
Management’s Discussion and Analysis
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(Unaudited)**

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 82% of the District’s receipts for governmental activities.

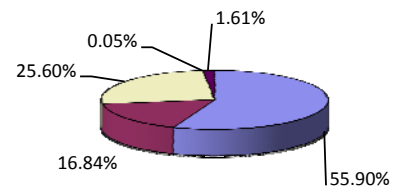
The District depends greatly on property taxes as a receipt source. The unique nature of property taxes in Ohio creates the need to routinely seek voter approval for operating funds. The overall receipts generated by a levy will not increase solely as a result of inflation. As an example, a homeowner 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 26% of governmental activities for the District in fiscal year 2014. The District’s reliance upon tax receipts is demonstrated in the following graph:

**Governmental Activities
Receipt Sources**

Receipt Sources	2014	Percentage of Total
General Grants	\$22,536,052	55.90%
Program Receipts	\$6,788,850	16.84%
General Tax Receipts	\$10,322,504	25.60%
Investment Earnings	\$20,800	0.05%
Other Receipts	\$647,347	1.61%
	<u>\$40,315,553</u>	<u>100.00%</u>



Instruction comprises 56% of governmental program disbursements. Support services 33% disbursements were of governmental program disbursements. All other disbursements including interest were 11%. Interest was attributable to the outstanding bond and borrowing for capital projects.

Total receipts increased mainly due to an increase in property tax monies and grant monies received by the District in 2014. 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
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**Table 3
Governmental Activities**

	Total Cost of Services		Net Cost of Services	
	2014	2013 Reclassified	2014	2013 Reclassified
Cash Disbursements:				
Instruction	\$21,901,642	\$20,660,561	(\$17,998,471)	(\$16,116,702)
Support Services:				
Pupil and Instructional Staff	4,263,260	4,266,606	(3,413,456)	(3,118,672)
School Administrative, General Administration, Fiscal and Business	4,122,087	3,877,394	(4,073,245)	(3,859,137)
Operations and Maintenance	3,272,016	2,949,536	(3,185,465)	(1,169,428)
Pupil Transportation	1,199,021	1,179,903	(1,132,355)	(964,456)
Central	264,133	256,617	(264,123)	(256,258)
Operation of Non-Instructional Services	1,531,636	1,432,287	56,433	(1,324,815)
Extracurricular Activities	689,590	931,258	(443,853)	(719,297)
Capital Outlay	201,441	415,842	(201,441)	(415,842)
Debt Service:				
Principal Retirement	1,257,094	859,698	(1,257,094)	(859,698)
Interest and Fiscal Charges	706,894	1,047,350	(706,894)	(1,047,350)
Total Cash Disbursements	<u>\$39,408,814</u>	<u>\$37,877,052</u>	<u>(\$32,619,964)</u>	<u>(\$29,851,655)</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 Building Fund. Assets of these funds comprised \$8,078,504 (87%) of the total \$9,157,243 in governmental funds assets.

General Fund: The net change in fund cash balance for fiscal year 2014 was \$138,980, which is due to increased tax receipts and intergovernmental receipts from 2013.

Special Levy Fund: The net change in fund cash balance for fiscal year 2014 was \$574,504, which is due to a decrease in instructional disbursements from 2013.

Classroom Facilities Maintenance Fund: The net change in fund cash balance for fiscal year 2014 was \$106,158. The increase in fund cash balance mainly came from an increase in property tax receipts from 2013.

Debt Service Fund: The net change in fund cash balance for fiscal year 2014 was \$113,157. The increase in fund cash balance mainly came from an increase in property tax receipts from 2013.

Building Fund: Fund cash balance as of June 30, 2014 was \$1,588,553. This is consistent to last year's fund cash balance.

**Painesville City Local School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2014
(Unaudited)**

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 2014, 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 \$30,443,893, compared to original budget estimates of \$29,541,692. Of this \$902,201 difference, most was due to estimating for taxes and intergovernmental receipts.

The District's ending unobligated cash balance was \$2,186,938.

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, 2014, the District had \$29,703,534 in debt outstanding, \$1,541,124 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, 2014
(Unaudited)**

Table 4 summarizes total debt outstanding.

Table 4
Outstanding Debt, at Year End

	Governmental Activities	
	2014	2013 Restated
General Obligation Bonds:		
Current Interest Bonds - 2005 School Improvement	\$1,310,000	\$9,740,007
Capital Appreciation Bonds - 2005 School Improvement	287,372	454,993
Accreted Interest - 2005 School Improvement	407,769	537,287
Premium on 2005 School Improvement Bonds	0	393,253
Current Interest Bonds - 2012 Advance Refunding	8,180,000	8,300,000
Capital Appreciation Bonds - 2012 Advance Refunding	74,986	74,986
Accreted Interest - 2012 Advance Refunding	44,710	19,346
Premium on Refunding - 2012 Advance Refunding	989,282	1,042,757
Current Interest Bonds - 2013 Advance Refunding	8,300,000	8,490,000
Capital Appreciation Bonds - 2013 Advance Refunding	34,995	34,995
Accreted Interest - 2013 Advance Refunding	36,573	5,537
Premium on Refunding - 2013 Advance Refunding	1,233,970	1,300,671
Current Interest Bonds - 2014 Advance Refunding	7,515,000	0
Capital Appreciation Bonds - 2014 Advance Refunding	664,994	0
Accreted Interest - 2014 Advance Refunding	20,195	0
Premium on Refunding - 2014 Advance Refunding	603,688	0
Notes Payable:		
Project - National City	0	42,100
Total Outstanding Debt at Year End	<u>\$29,703,534</u>	<u>\$30,435,932</u>

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

For the Future

A challenge facing the District is the future of state funds. On December 11, 2002, the Ohio Supreme Court found the state's school funding system unconstitutional but declined to retain jurisdiction of the matter meaning the decision included no timeline for compliance or accountability for lack of compliance. The District is currently unable to determine what effect, if any, this decision will have on its future State funding and on its financial operations.

In June of 2005, the State legislature passed House Bill 66. House Bill 66 phases out the tax on tangible personal property of general business, telephone, and telecommunications companies, and railroads. The tax is being phased out by reducing the assessment rate on the property each year. In the first five years, school districts were reimbursed fully for the lost revenue and in the following seven years the reimbursements were supposed to be phased out. HB1, 2009-2011 State biennium budget, included language to postpone the phase down of the reimbursement from 2011 to 2014. The phase down % remained unchanged so therefore in 2014 the reimbursement would have dropped to 50%. However, HB153, 2011-2013 State biennium budget, included language that revised the phase down of the

**Painesville City Local School District
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tangible tax reimbursement. The District will lose most of the remaining tangible tax reimbursement in 2012 and the small remaining balance in 2013.

In July 2009, Ohio's Governor signed HB1, the state biennium budget bill. Included in the bill was a complete overhaul of the school funding model for all school districts in Ohio. The Ohio Evidence-Based Model (OEBM) replaced the long-standing foundation formula that was declared unconstitutional by the Ohio Supreme Court. Due to the economic crisis the OEBM was going to be phased in. Fiscal Years 2010 and 2011 were funded using the partially phased in OEBM.

In June, 2011, Ohio's Governor signed HB153, the state biennium budget bill for 2012 and 2013. Language included in HB153 eliminated the OEBM funding model. In June 2013, Ohio's Governor signed HB59, the state biennium budget bill for 2014 and 2015. A new funding model was introduced. Simulations received from the state indicate the District will continue to be guaranteed funding amounts that were received in the previous biennium with no increase in funding.

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.

Painesville City Local School District
Statement of Net Position - Cash Basis
June 30, 2014

	Governmental Activities
Assets:	
Equity in Pooled Cash and Cash Equivalents	\$8,618,553
Restricted Cash and Cash Equivalents	<u>538,690</u>
Total Assets	<u>9,157,243</u>
Net Cash Position:	
Restricted for:	
Debt Service	1,074,569
Capital Projects	2,008,033
Classroom Facilities Maintenance	1,373,088
State Funded Programs	113,324
Federally Funded Programs	172,019
Special Levy	1,414,703
Food Service	215,032
Other Purposes	158,884
Unrestricted	<u>2,627,591</u>
Total Net Cash Position	<u>\$9,157,243</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, 2014

	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
Governmental Activities:				
Instruction:				
Regular	\$12,487,750	\$934,715	\$519,878	(\$11,033,157)
Special	6,273,735	279,702	1,985,296	(4,008,737)
Vocational	232,211	0	0	(232,211)
Other	2,907,946	0	183,580	(2,724,366)
Support Services:				
Pupil	1,676,997	0	226,339	(1,450,658)
Instructional Staff	2,586,263	0	623,465	(1,962,798)
General Administration	38,997	0	0	(38,997)
School Administration	3,447,498	0	48,842	(3,398,656)
Fiscal	603,433	0	0	(603,433)
Business	32,159	0	0	(32,159)
Operations and Maintenance	3,272,016	0	86,551	(3,185,465)
Pupil Transportation	1,199,021	12,309	54,357	(1,132,355)
Central	264,133	0	10	(264,123)
Operation of Non-Instructional Services	1,531,636	82,314	1,505,755	56,433
Extracurricular Activities	689,590	205,990	39,747	(443,853)
Capital Outlay	201,441	0	0	(201,441)
Debt Service:				
Principal Retirement	1,039,721	0	0	(1,039,721)
Interest and Fiscal Charges	924,267	0	0	(924,267)
Totals	<u>\$39,408,814</u>	<u>\$1,515,030</u>	<u>\$5,273,820</u>	<u>(32,619,964)</u>

General Receipts:

Property Taxes Levied for:	
General Purposes	7,026,080
Special Revenue Purposes	1,571,579
Debt Service Purposes	1,704,004
Capital Projects Purposes	20,841
Grants and Entitlements, Not Restricted	22,536,052
Investment Earnings	20,800
Other Receipts	647,347
Total General Receipts	<u>33,526,703</u>
Change in Net Cash Position	906,739
Net Cash Position - Beginning of Year	<u>8,250,504</u>
Net Cash Position - End of Year	<u>\$9,157,243</u>

See accompanying notes to the basic financial statements.

Painesville City Local School District
Statement of Assets and Fund Balances - Cash Basis
Governmental Funds
June 30, 2014

	General	Special Levy	Classroom Facilities Maintenance	Debt Service
Assets:				
Equity in Pooled Cash and Cash Equivalents	\$2,088,901	\$1,414,703	\$1,373,088	\$1,074,569
Restricted Cash and Cash Equivalents	<u>538,690</u>	<u>0</u>	<u>0</u>	<u>0</u>
Total Assets	<u><u>2,627,591</u></u>	<u><u>1,414,703</u></u>	<u><u>1,373,088</u></u>	<u><u>1,074,569</u></u>
Fund Cash Balances:				
Restricted	0	1,414,703	1,373,088	1,074,569
Committed	433,222	0	0	0
Assigned	250,675	0	0	0
Unassigned	<u>1,943,694</u>	<u>0</u>	<u>0</u>	<u>0</u>
Total Fund Cash Balances	<u><u>\$2,627,591</u></u>	<u><u>\$1,414,703</u></u>	<u><u>\$1,373,088</u></u>	<u><u>\$1,074,569</u></u>

See accompanying notes to the basic financial statements.

Building	Other Governmental Funds	Total Governmental Funds
\$1,588,553	\$1,078,739	\$8,618,553
0	0	538,690
<u>1,588,553</u>	<u>1,078,739</u>	<u>9,157,243</u>
1,588,553	1,078,739	6,529,652
0	0	433,222
0	0	250,675
0	0	1,943,694
<u>\$1,588,553</u>	<u>\$1,078,739</u>	<u>\$9,157,243</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, 2014

	General	Special Levy	Classroom Facilities Maintenance	Debt Service
Receipts:				
Property and Other Taxes	\$7,026,080	\$1,447,650	\$123,929	\$1,704,004
Tuition and Fees	1,193,494	0	0	0
Investment Earnings	11,653	0	505	395
Intergovernmental	22,145,998	0	86,551	364,017
Extracurricular Activities	83,114	0	0	0
Charges for Services	14,712	0	0	0
Other Receipts	618,359	0	0	8,990
Total Receipts	31,093,410	1,447,650	210,985	2,077,406
Cash Disbursements:				
Current:				
Instruction:				
Regular	11,053,332	873,146	0	0
Special	4,292,413	0	0	0
Vocational	232,211	0	0	0
Other	2,737,203	0	0	0
Support Services:				
Pupil	1,448,663	0	0	0
Instructional Staff	1,955,955	0	0	0
General Administration	38,997	0	0	0
School Administration	3,317,090	0	0	0
Fiscal	555,800	0	0	44,875
Business	32,159	0	0	0
Operations and Maintenance	2,994,432	0	104,827	0
Pupil Transportation	1,147,694	0	0	0
Central	264,125	0	0	0
Operation of Non-Instructional Services	4,060	0	0	0
Extracurricular Activities	487,895	0	0	0
Capital Outlay	193,090	0	0	0
Debt Service:				
Principal Retirement	0	0	0	1,039,721
Interest and Fiscal Charges	0	0	0	1,081,305
Total Cash Disbursements	30,755,119	873,146	104,827	2,165,901
Excess of Receipts Over (Under) Cash Disbursements	338,291	574,504	106,158	(88,495)
Other Financing Sources (Uses):				
Payments to Refunded Bond Escrow Agent	0	0	0	(8,626,644)
Sale of Refunding Bonds	0	0	0	8,179,994
Premium on Refunding	0	0	0	603,688
Advances In	132,218	0	0	0
Advances (Out)	(216,860)	0	0	0
Transfers In	0	0	0	44,614
Transfers (Out)	(114,669)	0	0	0
Total Other Financing Sources (Uses)	(199,311)	0	0	201,652
Net Change in Fund Cash Balance	138,980	574,504	106,158	113,157
Fund Cash Balance - Beginning of Year	2,488,611	840,199	1,266,930	961,412
Fund Cash Balance - End of Year	\$2,627,591	\$1,414,703	\$1,373,088	\$1,074,569

See accompanying notes to the basic financial statements.

Building	Other Governmental Funds	Total Governmental Funds
\$0	\$20,841	\$10,322,504
0	0	1,193,494
8,030	217	20,800
0	5,213,307	27,809,873
0	117,630	200,744
0	87,555	102,267
0	38,522	665,871
8,030	5,478,072	40,315,553
0	561,272	12,487,750
0	1,981,322	6,273,735
0	0	232,211
0	170,743	2,907,946
0	228,334	1,676,997
0	630,308	2,586,263
0	0	38,997
0	130,408	3,447,498
0	2,758	603,433
0	0	32,159
0	172,757	3,272,016
0	51,327	1,199,021
0	8	264,133
0	1,527,576	1,531,636
0	201,695	689,590
0	8,351	201,441
0	0	1,039,721
0	0	1,081,305
0	5,666,859	39,565,852
8,030	(188,787)	749,701
0	0	(8,626,644)
0	0	8,179,994
0	0	603,688
0	194,612	326,830
0	(109,970)	(326,830)
0	70,055	114,669
0	0	(114,669)
0	154,697	157,038
8,030	(34,090)	906,739
1,580,523	1,112,829	8,250,504
\$1,588,553	\$1,078,739	\$9,157,243

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, 2014

	General Fund			
	Original Budget	Final Budget	Actual	Variance from Final Budget
Budgetary Basis Receipts:				
Taxes	\$6,777,418	\$6,984,400	\$7,026,080	\$41,680
Tuition and Fees	910,888	938,706	944,308	5,602
Investment Earnings	11,241	11,584	11,653	69
Intergovernmental	21,362,223	22,014,625	22,145,998	131,373
Extracurricular Activities	18,830	19,405	19,521	116
Other Receipts	461,092	475,173	478,009	2,836
Total Budgetary Basis Receipts	29,541,692	30,443,893	30,625,569	181,676
Budgetary Basis Disbursements:				
Current:				
Instruction:				
Regular	10,992,396	11,061,842	11,061,201	641
Special	4,107,138	4,133,086	4,132,846	240
Vocational	72,926	73,386	73,382	4
Other	2,720,177	2,737,362	2,737,203	159
Support Services:				
Pupil	1,423,360	1,432,352	1,432,269	83
Instructional Staff	1,872,356	1,884,185	1,884,076	109
General Administration	38,754	38,999	38,997	2
School Administration	3,303,321	3,324,190	3,323,997	193
Fiscal	554,090	557,590	557,558	32
Business	32,967	33,175	33,173	2
Operations and Maintenance	2,928,184	2,946,683	2,946,512	171
Pupil Transportation	1,191,304	1,198,830	1,198,761	69
Central	264,397	266,067	266,052	15
Operation of Non-Instructional Services	3,935	3,960	3,960	0
Extracurricular Activities	434,516	437,261	437,236	25
Capital Outlay	191,889	193,101	193,090	11
Total Budgetary Basis Disbursements	30,131,710	30,322,069	30,320,313	1,756
Excess of Budgetary Basis Receipts Over (Under)				
Budgetary Basis Disbursements	(590,018)	121,824	305,256	183,432
Other Financing Sources (Uses):				
Advances In	127,540	131,435	132,219	784
Advances (Out)	(193,355)	(194,576)	(194,565)	11
Transfers In	1,042	1,074	1,080	6
Transfers (Out)	(377,095)	(379,477)	(379,455)	22
Total Other Financing Sources (Uses)	(441,868)	(441,544)	(440,721)	823
Net Change in Fund Balance	(1,031,886)	(319,720)	(135,465)	184,255
Fund Balance Beginning of Year (includes prior year encumbrances appropriated)	2,322,403	2,322,403	2,322,403	0
Fund Balance End of Year	\$1,290,517	\$2,002,683	\$2,186,938	\$184,255

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, 2014

	Special Levy Fund			
	Original Budget	Final Budget	Actual	Variance from Final Budget
Budgetary Basis Receipts:				
Taxes	\$1,450,000	\$1,447,650	\$1,447,650	\$0
Total Budgetary Basis Receipts	1,450,000	1,447,650	1,447,650	0
Budgetary Basis Disbursements:				
Current:				
Instruction:				
Regular	2,040,198	873,146	873,146	0
Total Budgetary Basis Disbursements	2,040,198	873,146	873,146	0
Net Change in Fund Balance	(590,198)	574,504	574,504	0
Fund Balance Beginning of Year (includes prior year encumbrances appropriated)	840,199	840,199	840,199	0
Fund Balance End of Year	\$250,001	\$1,414,703	\$1,414,703	\$0

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, 2014

	Classroom Facilities Maintenance Fund			
	Original Budget	Final Budget	Actual	Variance from Final Budget
Budgetary Basis Receipts:				
Investment Earnings	\$502	\$505	\$505	\$0
Intergovernmental	86,034	86,533	86,551	18
Total Budgetary Basis Receipts	86,536	87,038	87,056	18
Budgetary Basis Disbursements:				
Current:				
Support Services:				
Operations and Maintenance	1,476,658	106,527	106,527	0
Total Budgetary Basis Disbursements	1,476,658	106,527	106,527	(0)
Excess of Budgetary Basis Receipts Over (Under)				
Budgetary Basis Disbursements	(1,390,122)	(19,489)	(19,471)	18
Other Financing Sources (Uses):				
Transfers In	123,189	123,903	123,929	26
Total Other Financing Sources (Uses)	123,189	123,903	123,929	26
Net Change in Fund Balance	(1,266,933)	104,414	104,458	44
Fund Balance Beginning of Year (includes prior year encumbrances appropriated)	1,266,933	1,266,933	1,266,933	0
Fund Balance End of Year	\$0	\$1,371,347	\$1,371,391	\$44

See accompanying notes to the basic financial statements.

Painesville City Local School District
Statement of Fiduciary Net Position - Cash Basis
Fiduciary Fund
June 30, 2014

	Private Purpose Trust	Agency
Assets:		
Equity in Pooled Cash and Cash Equivalents	<u>\$13,032</u>	<u>\$13,848</u>
Total Assets	<u>13,032</u>	<u>13,848</u>
Liabilities:		
Other Liabilities	<u>0</u>	<u>13,848</u>
Total Liabilities	<u>0</u>	<u>\$13,848</u>
Net Cash Position:		
Unrestricted	<u>13,032</u>	
Total Net Cash Position	<u>\$13,032</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, 2014

	Private Purpose Trust
Additions:	
Investment Earnings	\$3
Other	1,300
Total Additions	<u>1,303</u>
Deductions:	
Scholarships	<u>1,813</u>
Total Deductions	<u>1,813</u>
Change in Net Cash Position	(510)
Net Cash Position - Beginning of Year	<u>13,542</u>
Net Cash Position - End of Year	<u><u>\$13,032</u></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, 2014**

Note 1 - Description of the District

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, 2014 was 2,927. The District employed 243 certificated employees and 158 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

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.

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

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

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. Current liabilities are assigned to the fund from which they will be paid. The difference between governmental fund assets and liabilities is reported as fund balance. The following 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.

Building Fund – The building fund is used to account for receipts and expenditures related to the acquisition and construction of capital facilities including real property.

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

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

The District has invested funds in the State Treasury Asset Reserve of Ohio (STAR Ohio) during fiscal year 2014. 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, 2014.

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 \$11,653 credited to the general fund, \$505 credited to the classroom facilities maintenance fund, \$395 credited to the debt service fund, \$8,030 credited to the building fund, and \$217 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, 2014**

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.

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.

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.

**Painesville City Local School District
Lake County, Ohio
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2014**

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 2014.

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.

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

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

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	\$138,980	\$574,504	\$106,158
Adjustment for Encumbrances	(217,739)	0	(1,700)
Funds Budgeted Elsewhere	(56,706)	0	0
Budget Basis	<u>(\$135,465)</u>	<u>\$574,504</u>	<u>\$104,458</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.

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.

**Painesville City Local School District
Lake County, Ohio
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2014**

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

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:

- (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

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

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.

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, 2014, \$365,519 of the District's bank balance of \$5,213,684 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

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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, 2014, 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	\$599,565	0.00
STAR Ohio	3,625,009	0.14
Total Fair Value	\$4,224,574	
Portfolio Weighted Average Maturity		0.12

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 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 (14%) and STAROhio (86 %).

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

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.

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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, 2014, are available to finance fiscal year 2015 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 2014 taxes were collected are:

	Second Half 2013 Amount	First Half 2014 Amount
Agricultural/Residential and Other Real Estate	\$179,329,750	\$178,074,080
Public Utility Personal	1,789,050	2,060,760
Total	\$181,118,800	\$180,134,840

Note 5 - Long-Term Debt

	Maturity Dates	Restated Beginning Balance	Additions	Reductions	Ending Balance	Due In One Year
Governmental Activities:						
General Obligation Bonds:						
2005 School Improvement -						
Current Interest Bonds - 4.87%	12/1/33	9,740,007	0	(8,430,007) *	1,310,000	925,000
Capital Appreciation Bonds	12/1/33	454,993	0	(167,621)	287,372	151,124
Accreted Interest	12/1/15	537,287	87,861	(217,379)	407,769	0
Premium on Bonds		393,253	0	(393,253)	0	0
2012 Advance Refunding of 2004 OSFC -						
Current Interest Bonds - 0.75% - 3.55%	12/1/32	8,300,000	0	(120,000)	8,180,000	125,000
Capital Appreciation Bonds		74,986	0	0	74,986	0
Accreted Interest		19,346	25,364	0	44,710	0
Premium on Refunding		1,042,757	0	(53,475)	989,282	0
2013 Advance Refunding of 2004 OSFC -						
Current Interest Bonds - 0.75% - 3.55%		8,490,000	0	(190,000)	8,300,000	140,000
Capital Appreciation Bonds		34,995	0	0	34,995	0
Accreted Interest		5,537	31,036	0	36,573	0
Premium on Refunding		1,300,671	0	(66,701)	1,233,970	0
2014 Advance Refunding of 2005 OSFC -						
Current Interest Bonds - 1.00% - 3.00%		0	7,515,000	0	7,515,000	200,000
Capital Appreciation Bonds		0	664,994	0	664,994	0
Accreted Interest		0	20,195	0	20,195	0
Premium on Refunding		0	603,688	0	603,688	0
Notes Payable	6/1/14	42,100	0	(42,100)	0	0
Total Long Term Debt		\$30,435,932	\$8,948,138	(\$9,680,536)	\$29,703,534	\$1,541,124

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*- Bonds were advanced refunded during the fiscal year. A principal payment of \$520,000 was made during the fiscal year.

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>		
	Principal	Interest	Total	Principal	Interest	Total
2015	\$1,390,000	\$624,791	\$2,014,791	\$151,124	\$233,876	\$385,000
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
2020-2024	6,125,000	2,456,146	8,581,146	19,812	1,160,188	1,180,000
2025-2029	6,320,000	3,663,564	9,983,564	74,986	1,995,014	2,070,000
2030-2033	7,400,000	490,068	7,890,068	0	0	0
Total	<u>\$25,305,000</u>	<u>\$9,590,503</u>	<u>\$34,895,503</u>	<u>\$1,062,347</u>	<u>\$4,337,653</u>	<u>\$5,400,000</u>

Note 6 - Advanced Refunding

On March 20, 2014 the District issued \$7,515,000 in current interest bonds with an average interest rate of 3.288% and \$664,994 in capital appreciation bonds of which \$8,179,994 was used to partially advance refund \$8,525,007 of outstanding Ohio Schools Facilities Commission School Improvement Bonds with average interest rates of 4.62%. The net proceeds of \$8,783,681 (after payment of underwriting fees, insurance and other issuance costs) were used to purchase U.S. government securities. Those securities were deposited into an irrevocable trust with an escrow agent to provide all future debt service payments on the bond issue.

The District partially advance refunded their Ohio Schools Facilities Commission School Improvement Bonds to reduce its total debt service payments by \$891,387 and to obtain an economic gain (difference between the present value of the debt service payments on the old and new debt) of \$803,780.

Note 7 – Lessor

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 2014 were \$114,828.

Note 8 - Pension Plans

School Employees Retirement System of Ohio

Plan Description

The District contributes to the School Employees Retirement System of Ohio (SERS), a cost-sharing multiple-employer defined benefit pension plan. SERS provides retirement, disability, and survivor benefits; annual cost-of-living adjustments; and death benefits to plan members and beneficiaries. Authority to establish and amend benefits is provided by state statute per Chapter 3309 of the Ohio Revised Code. SERS issues a publicly available, stand-alone financial report that includes financial statements and required supplementary information. That report can be obtained on SERS' website at www.ohsers.org under *Employers/Audit Resources*.

Funding Policy

Plan members are required to contribute 10% of their annual covered salary and the District is required to contribute 14% of annual covered payroll. The contribution requirements of plan members and employers are established and may be amended, up to statutory maximum amounts, by the SERS' Retirement Board. The Retirement Board acting with the advice of the actuary, allocates the employer contribution rate among four of the funds (Pension Trust Fund, Death Benefit Fund, Medicare B Fund, and Health Care fund) of the System. For fiscal year ending June 30, 2014, the allocation to pension and death benefits is 13.10%. The remaining 0.90% of the 14% employer contribution rate is allocated to the Health Care and Medicare B Funds. The District's contributions to SERS for the years ended June 30, 2014, 2013, and 2012 were \$727,944, \$725,328, and \$733,104, respectively; contributions equaled the required contributions for each year.

State Teachers Retirement System of Ohio

Plan Description

The School District participates in the State Teachers Retirement System of Ohio (STRS Ohio), a cost-sharing, multiple employer public employee retirement system. STRS Ohio is a statewide retirement plan for licensed teachers and other faculty members employed in the public schools of Ohio or any school, community school, college, university, institution, or other agency controlled, managed and supported, in whole or in part, by the state or any political subdivision thereof. Additional information or copies of STRS Ohio's *Comprehensive Annual Financial Report* can be requested by writing to STRS Ohio, 275 E. Broad Street, Columbus, OH 43215-3771, by calling toll-free 1-888-227-7877, or by visiting the STRS Ohio web site at www.strsoh.org.

Plan Options

New members have a choice of three retirement plan options. In addition to the Defined Benefit (DB) Plan, new members are offered a Defined Contribution (DC) Plan and a Combined Plan. The DC Plan allows members to allocate all their member contributions and employer contributions equal to 10.5% of earned compensation among various investment choices. The Combined Plan offers features of the DC Plan and DB Plan. In the Combined Plan, member contributions are allocated to 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. Contributions into the DC Plan and Combined Plan are credited to member accounts as employers submit their payroll information to STRS Ohio, generally on a biweekly

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basis. DC and Combined Plan members will transfer to the DB Plan during their fifth year of membership unless they permanently select the DC or Combined Plan.

DB Plan Benefits

Plan benefits are established under Chapter 3307 of the Revised Code. Any member may retire who has (i) five years of service credit and attained age 60; (ii) 25 years of service credit and attained age 55; or (iii) 30 years of service credit regardless of age. The annual retirement allowance, payable for life, is the greater of the “formula benefit” or the “money-purchase benefit” calculation. Under the “formula benefit,” the retirement allowance is based on years of credited service and final average salary, which is the average of the member’s three highest salary years. The annual allowance is calculated by using a base percentage of 2.2% multiplied by the total number of years of service credit (including Ohio-valued purchased credit) times the final average salary. The 31st year of earned Ohio service credit is calculated at 2.5%. An additional one-tenth of a percent is added to the calculation for every year of earned Ohio service over 31 years (2.6% for 32 years, 2.7% for 33 years and so on) until 100% of final average salary is reached. For members with 35 or more years of Ohio contributing service, the first 30 years will be calculated at 2.5% instead of 2.2%. Under the “money-purchase benefit” calculation, a member’s lifetime contributions plus interest at specified rates are matched by an equal amount from other STRS Ohio funds. This total is then divided by an actuarially determined annuity factor to determine the maximum annual retirement allowance.

DC Plan Benefits

Benefits are established under Sections 3307.80 to 3307.89 of the Revised Code. For members who select the DC Plan, all member contributions and employer contributions at a rate of 10.5% are placed in an investment account. The member determines how to allocate the member and employer money among various investment choices. 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. Employer contributions into members’ accounts are vested after the first anniversary of the first day of paid service. Members in the DC Plan who become disabled are entitled only to their account balance. If a member dies before retirement benefits begin, the member’s designated beneficiary is entitled to receive the member’s account balance.

Combined Plan Benefits

Member contributions are allocated by the member, and employer contributions are used to fund a defined benefit payment. A member’s defined benefit is determined by multiplying 1% of the member’s final average salary by the member’s years of service credit. The defined benefit portion of the Combined Plan payment is payable to a member on or after age 60. The defined contribution portion of the account may be taken as a lump sum or converted to a lifetime monthly annuity at age 50.

A retiree of STRS Ohio or another Ohio public retirement system is eligible for reemployment as a teacher following the elapse of two months from the date of retirement. Contributions are made by the reemployed member and employer during the reemployment. Upon termination of reemployment or age 65, whichever comes later, the retiree is eligible for an annuity benefit or equivalent lump-sum payment in addition to the original retirement allowance. A reemployed retiree may alternatively receive a refund of only member contributions with interest before age 65, once employment is terminated.

Benefits are increased annually by 3% of the original base amount for DB Plan participants.

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The DB and Combined Plans offer access to health care coverage to eligible retirees who participated in the plans and their eligible dependents. Coverage under the current program includes hospitalizations, physicians' fees, prescription drugs and partial reimbursement of monthly Medicare Part B premiums. By Ohio law, health care benefits are not guaranteed.

A DB or Combined Plan member with five or more years' credited service who becomes disabled may qualify for a disability benefit. Eligible spouses and dependents of members who die before retirement may qualify for survivor benefits. A death benefit of \$1,000 is payable to the beneficiary of each deceased retired member who participated in the DB Plan. Death benefit coverage up to \$2,000 can be purchased by participants in the DB, DC or Combined Plans. Various other benefits are available to members' beneficiaries.

Funding Policy

Chapter 3307 of the Revised Code provides statutory authority for member and employer contributions. Contribution rates are established by the State Teachers Retirement Board, upon recommendations of its consulting actuary, not to exceed statutory maximum rates of 10% for members and 14% for employers.

Contribution requirements and the contributions actually made for the fiscal year ended June 30, 2014, were 10% of covered payroll for members and 14% for employers. The District's contributions to STRS for the years ended June 30, 2014, 2013, and 2012 were \$2,037,708, \$1,913,208, and \$1,965,576, respectively; 83% has been contributed for fiscal year 2014 and 100% for fiscal years 2013 and 2012.

Note 9 - Post Employment Benefits

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.

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 2014 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 2014, the actuarially required allocation was .74%. District contributions for the years ended June 30, 2014, 2013 and 2012 were \$38,477, \$38,857, and \$39,797, 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,

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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, 2014, the health care allocation was 0.16%. 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 2014, the minimum compensation level was established at \$20,525. 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, 2014, 2013, and 2012 were \$8,320, \$28,495, and \$74,881, 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 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 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 or by requesting a copy by calling toll-free 1-888-227-7877.

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Funding Policy

Under Ohio law, funding for post-employment health care may be deducted from employer contributions. Of the 14% employer contributions rate, 1% of covered payroll was allocated to post-employment health care for the year ended June 30, 2014, 2013 and 2012. The 14% employer contribution rate is the maximum rate established under Ohio law. The District contributions for the years ended June 30, 2014, 2013, and 2012 were \$145,551, \$136,658, and \$140,398, 83% has been contributed for fiscal year 2014 and 100% for fiscal years 2013 and 2012.

Note 10 – Contingent Liabilities

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, 2014, if applicable, cannot be determined at this time.

Litigation

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

Note 11 – Lake County School Financing District

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 12 – 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.

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.

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

Note 13 – Claims Servicing Pool

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.

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Note 14 – Risk Management

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 2014, the District contracted with Liberty Mutual Insurance for property and general liability insurance. There is a \$1,000,000 limit of liability.

Commercial umbrella liability is protected by Liberty Mutual Insurance with a \$10,000,000 single and aggregate occurrence limit. Vehicles are covered by Liberty Mutual 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 15 – OSBA Insurance Purchasing Pool

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.

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 16 – Fund Balance Reserves for Set-Asides

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, 2014, 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.

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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, 2013	\$0	\$105,468
Current Year Set Aside Requirements	520,180	0
Current Year Offsets	<u>(19,580,746)</u>	<u>0</u>
Total	<u><u>(\$19,060,566)</u></u>	<u><u>\$105,468</u></u>
Set Aside Reserve Balance		
Carried Forward to Future Years	\$0	\$0
Set Aside Balance as of June 30, 2014	0	105,468
Committed Balance as of June 30, 2014	<u>0</u>	<u>433,222</u>
Restricted Cash as of June 30, 2014	<u><u>\$0</u></u>	<u><u>\$538,690</u></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 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 17 – Interfund Transactions

Interfund transactions at June 30, 2014, consisted of the following transfers in and transfers out, advances in and advances out:

	Transfers		Advances	
	<u>In</u>	<u>Out</u>	<u>In</u>	<u>Out</u>
General Fund	\$0	\$114,669	\$132,218	\$216,860
Debt Service Fund	44,614	0	0	0
Other Governmental Funds	<u>70,055</u>	<u>0</u>	<u>194,612</u>	<u>109,970</u>
Total All Funds	<u><u>\$114,669</u></u>	<u><u>\$114,669</u></u>	<u><u>\$326,830</u></u>	<u><u>\$326,830</u></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

Painesville City Local School District
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Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2014

with budgetary authorizations; to segregate and to return money to the fund from which it was originally provided once a project is completed.

Note 18 – 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	Building	Other Governmental Funds	Total
Restricted for:							
Other Grants	\$0	\$0	\$0	\$0	\$0	\$81,964	\$81,964
Special Levy	0	1,414,703	0	0	0	0	1,414,703
District Managed							
Student Activity	0	0	0	0	0	76,920	76,920
Auxiliary Services	0	0	0	0	0	13,980	13,980
High Schools That Work	0	0	0	0	0	44	44
Straight A	0	0	0	0	0	69,643	69,643
Miscellaneous State Grants	0	0	0	0	0	15,201	15,201
Title VI B	0	0	0	0	0	34,596	34,596
Title III	0	0	0	0	0	11,050	11,050
Title I	0	0	0	0	0	105,353	105,353
Title IA	0	0	0	0	0	21,000	21,000
Public Preschool	0	0	0	0	0	5,456	5,456
Classroom Facilities Maintenance	0	0	1,373,088	0	0	0	1,373,088
Debt Service Payments	0	0	0	1,074,569	0	0	1,074,569
Food Service	0	0	0	0	0	215,032	215,032
Miscellaneous Federal Grants	0	0	0	0	0	20	20
Capital Improvements	0	0	0	0	1,588,553	419,480	2,008,033
Data Communications	0	0	0	0	0	9,000	9,000
Total Restricted	0	1,414,703	1,373,088	1,074,569	1,588,553	1,078,739	6,529,652
Committed to:							
Fund Deficit/Emergency	433,222	0	0	0	0	0	433,222
Total Committed	433,222	0	0	0	0	0	433,222
Assigned to:							
Public School Support	27,362	0	0	0	0	0	27,362
Encumbrances	223,313	0	0	0	0	0	223,313
Total Assigned	250,675	0	0	0	0	0	250,675
Unassigned (Deficit)	1,943,694	0	0	0	0	0	1,943,694
Total Fund Balance	\$2,627,591	\$1,414,703	\$1,373,088	\$1,074,569	\$1,588,553	\$1,078,739	\$9,157,243

**Painesville City Local School District
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Note 19 – 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.