

**EUCLID CITY SCHOOL DISTRICT
CUYAHOGA COUNTY, OHIO**

AUDIT REPORT

**FOR THE FISCAL YEAR
ENDED JUNE 30, 2014**

James G. Zupka, CPA, Inc.
Certified Public Accountants



Dave Yost • Auditor of State

Board of Education
Euclid City School District
651 East 222nd Street
Euclid, OH 44123

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

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

A handwritten signature in black ink that reads "Dave Yost".

Dave Yost
Auditor of State

April 27, 2015

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**EUCLID CITY SCHOOL DISTRICT
CUYAHOGA COUNTY, OHIO
AUDIT REPORT
FOR THE FISCAL YEAR ENDED JUNE 30, 2014**

TABLE OF CONTENTS

	<u>PAGE</u>
Independent Auditor's Report	1-3
Management's Discussion and Analysis	5-13
Basic Financial Statements:	
Statement of Net Position	15
Statement of Activities	16
Balance Sheet - Governmental Funds	17
Reconciliation of Total Governmental Fund Balances to Net Position of Governmental Activities	18
Statement of Revenues, Expenditures and Changes in Fund Balances - Governmental Funds	19
Reconciliation of Statement of Revenues, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities	20
Statement of Revenues, Expenditures, and Changes in Fund Balance - Budget and Actual (Non-GAAP Basis) - General Fund	21
Statement of Fund Net Position - Proprietary Funds	22
Statement of Revenues, Expenses, and Changes in Fund Net Position - Proprietary Funds	23
Statement of Cash Flows - Proprietary Funds	24
Statement of Assets and Liabilities - Fiduciary Funds	25
Notes to the Basic Financial Statements	27-60
Schedule of Expenditures of Federal Awards	61
Notes to the Schedule of Expenditures of Federal Awards	62
Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	63-64
Report on Compliance for Each Major Program and on Internal Control Over Compliance Required by OMB Circular A-133	65-67
Schedule of Findings and Questioned Costs	68-69
Schedule of Prior Audit Findings and Recommendations	70

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INDEPENDENT AUDITOR'S REPORT

Board of Education
Euclid City School District
Euclid, Ohio

The Honorable Dave Yost
Auditor of State
State of Ohio

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Euclid City School District, Cuyahoga County, Ohio, 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 as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinions

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

Other Matters

Required Supplementary Information

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

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Euclid City School District, Ohio's basic financial statements. The Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the basic financial statements.

The Schedule of Expenditures of Federal Awards is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the Schedule of Expenditures of Federal Awards is fairly stated in all material respects in relation to the basic financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated January 27, 2015, on our consideration of the Euclid City School District, Ohio's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Euclid City School District, Ohio's internal control over financial reporting and compliance.

James G. Zupka,
CPA, President
James G. Zupka, CPA, Inc.
Certified Public Accountants

Digitally signed by James G. Zupka, CPA,
President
DN: cn=James G. Zupka, CPA, President,
o=James G. Zupka, CPA, Inc., ou=Accounting,
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Date: 2015.01.30 16:25:32 -05'00'

January 27, 2015

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Management's Discussion and Analysis

For the Fiscal Year Ended June 30, 2014 (Unaudited)

The management's discussion and analysis of the Euclid City School District's (the "District") 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 transmittal letter, notes to the basic financial statements, and financial statements to enhance their understanding of the District's financial performance.

Financial Highlights

Key financial highlights for 2014 are as follows:

- In total, net position increased \$5,598,053 or by 8.7 percent. Net position of governmental activities increased \$5,355,920 which represents an 8.5 percent increase from 2013 to 2014. Net position of business-type activities increased \$242,133 which represents a 21.3 percent increase from 2013 to 2014.
- General revenues accounted for \$78,289,538 in revenue or 89.5 percent of all governmental revenues. Program specific revenues in the form of charges for services and operating and capital grants and contributions accounted for \$9,203,200 or 10.5 percent of total governmental revenues of \$87,492,738.
- Total assets of governmental activities experienced an increase of \$2,155,364 as current and other assets increased by \$4,006,880 and capital assets decreased by \$1,851,516. Total liabilities of governmental activities decreased by \$2,246,536.
- The District had \$82,079,770 in expenses related to governmental activities; only \$9,203,200 of those expenses were offset by program specific charges for services and operating and capital grants and contributions. General revenues (primarily taxes and grants and entitlements) of \$78,289,538 were able to fully cover for these programs.
- The general fund had \$74,136,902 in revenues (including other financing sources) and \$71,395,776 in expenditures (including other financing uses). The fund balance of the general fund increased from a deficit fund balance of \$514,277 to a positive fund balance of \$2,226,849.

Using this Annual Financial Report

This annual report consists of a series of financial statements and notes to those statements. These statements are organized so the reader can understand the District as a financial whole, an entire operating entity. The statements then proceed to provide an increasingly detailed look at specific financial activities.

The *Statement of Net Position* and *Statement of Activities* provide information about the activities of the whole 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 nonmajor funds presented in total in one column. In the case of the District, the general fund and the bond retirement fund are by far the most significant funds.

Reporting the District as a Whole

Statement of Net Position and Statement of Activities

While this document contains information about 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 Statement of Net Position and Statement of Activities answer this question. These statements include *all assets and deferred outflows of resources* along with *all liabilities and deferred inflows of resources* using the *accrual basis of accounting* similar to the accounting used by most private-sector companies. This basis of accounting takes into account all of the current year’s revenues and expenses regardless of when cash is received or paid.

These two statements report the District’s net position and changes in that position. This change in net position is important because it tells the reader that, for the District as a whole, the *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, required educational programs, and other factors.

In the Statement of Net Position and Statement of Activities, the District is divided into two distinct kinds of activities:

- Governmental Activities - Most of the District’s programs and services are reported here including instruction, support services, operation and maintenance of plant services, pupil transportation, and extracurricular activities.
- Business-Type Activities – These services are provided on a charge for goods or services basis to recover all of the expenses of the goods or services provided. The District’s food service, uniform school supplies, and customer services are reported as business activities.

Reporting the District’s Most Significant Funds

Fund Financial Statements

The analysis of the District’s major fund begins on page 10. Fund financial statements 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. The District’s major governmental funds are the general fund and the bond retirement fund.

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 an accounting method called *modified accrual* accounting, which measures cash and all other *financial assets* that can readily be converted to cash. The governmental fund statements provide a detailed *short-term* view of the District’s general government operations and the basic services it provides. Governmental fund information helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance educational programs. The relationship (or differences) between governmental activities (reported in the Statement of Net Position and Statement of Activities) and governmental funds is reconciled in the financial statements.

Proprietary Funds Proprietary funds use the same basis of accounting as business-type activities; therefore, these statements will essentially match.

The School District as a Whole

You may recall that the Statement of Net Position provides the perspective of the District as a whole.

Table 1 provides a summary of the District’s net position for 2014 compared to 2013:

Table 1 - Net Position

	Governmental Activities		Business-Type Activities		Total	
	2014	2013	2014	2013	2014	2013
ASSETS						
Current and other assets	\$ 69,866,399	\$ 65,859,519	\$ 884,299	\$ 684,342	\$ 70,750,698	\$ 66,543,861
Capital assets, net	84,924,239	86,775,755	586,730	636,854	85,510,969	87,412,609
Total Assets	154,790,638	152,635,274	1,471,029	1,321,196	156,261,667	153,956,470
LIABILITIES						
Current and other liabilities	11,269,507	10,252,964	67,807	146,705	11,337,314	10,399,669
Long-term liabilities:						
Due within one year	4,118,076	3,662,148	9,647	8,993	4,127,723	3,671,141
Due in more than one year	41,484,567	45,203,574	13,711	27,767	41,498,278	45,231,341
Total Liabilities	56,872,150	59,118,686	91,165	183,465	56,963,315	59,302,151
DEFERRED INFLOWS OF RESOURCES						
Property taxes	29,333,538	30,277,086	-	-	29,333,538	30,277,086
Payments in lieu of taxes	29,528	40,000	-	-	29,528	40,000
Total Deferred Inflows of Resources	29,363,066	30,317,086	-	-	29,363,066	30,317,086
NET POSITION						
Net investment in Capital Assets	41,760,027	41,111,623	586,730	636,854	42,346,757	41,748,477
Restricted	8,864,737	9,331,415	-	-	8,864,737	9,331,415
Unrestricted	17,930,658	12,756,464	793,134	500,877	18,723,792	13,257,341
Total Net Position	\$ 68,555,422	\$ 63,199,502	\$ 1,379,864	\$ 1,137,731	\$ 69,935,286	\$ 64,337,233

Current and other assets of governmental activities increased \$4,006,880. Capital assets decreased by \$1,851,516. The increase in current assets is mainly due to an increase in equity in pooled cash, cash equivalents, and investments coupled with an increase in property taxes receivable. The decrease in capital assets is mainly due to current year depreciation expenses exceeding capital additions.

The net position of the District’s business-type activities increased by \$242,133 or 21.3 percent. The main contributor to the increase in net position is related to a significant decrease in the customer services activity.

Table 2 shows the changes in net position for fiscal year 2014 compared to 2013.

Table 2 - Change in Net Position

	Governmental Activities		Business-Type Activities		Total	
	2014	2013	2014	2013	2014	2013
REVENUES						
Program Revenues:						
Charges for services	\$ 688,799	\$ 610,112	\$ 361,506	\$ 879,004	\$ 1,050,305	\$ 1,489,116
Operating grants and contributions	6,965,429	6,478,489	2,297,596	1,987,086	9,263,025	8,465,575
Capital grants and contributions	1,548,972	-	-	-	1,548,972	-
Total Program Revenues	9,203,200	7,088,601	2,659,102	2,866,090	11,862,302	9,954,691
General Revenues:						
Property taxes	43,228,127	34,725,341	-	-	43,228,127	34,725,341
School District income taxes	6,081,191	6,115,885	-	-	6,081,191	6,115,885
Grants and entitlements	28,203,345	27,282,085	-	-	28,203,345	27,282,085
Payment in lieu of taxes	31,043	39,723	-	-	31,043	39,723
Investment income	16,217	78,912	768	1	16,985	78,913
All other revenues	729,615	925,533	34,155	34,896	763,770	960,429
Total General Revenues	78,289,538	69,167,479	34,923	34,897	78,324,461	69,202,376
Total Revenues	87,492,738	76,256,080	2,694,025	2,900,987	90,186,763	79,157,067
EXPENSES						
Program Expenses:						
Instruction:						
Regular	28,523,851	25,854,329	-	-	28,523,851	25,854,329
Special	16,727,493	15,998,660	-	-	16,727,493	15,998,660
Vocational	1,188,650	1,123,135	-	-	1,188,650	1,123,135
Adult/Continuing	4,812	127,155	-	-	4,812	127,155
Other	35,288	24,037	-	-	35,288	24,037
Supporting Services:						
Pupils	6,303,209	4,391,061	-	-	6,303,209	4,391,061
Instructional Staff	2,985,751	5,383,985	-	-	2,985,751	5,383,985
Board of Education	126,078	96,477	-	-	126,078	96,477
Administration	5,394,761	4,745,436	-	-	5,394,761	4,745,436
Fiscal Services	1,973,807	2,009,442	-	-	1,973,807	2,009,442
Business	734,019	594,531	-	-	734,019	594,531
Operation and Maintenance of Plant	7,103,981	6,930,699	-	-	7,103,981	6,930,699
Pupil Transportation	4,735,717	4,519,965	-	-	4,735,717	4,519,965
Central	1,912,031	1,710,140	-	-	1,912,031	1,710,140
Operation of Non-Instructional Services	1,280,188	879,096	-	-	1,280,188	879,096
Extracurricular Activities	1,124,057	1,025,761	-	-	1,124,057	1,025,761
Interest and Fiscal Charges	1,926,077	1,959,815	-	-	1,926,077	1,959,815
Food Service	-	-	2,419,472	2,401,155	2,419,472	2,401,155
Uniform School Supplies	-	-	-	2,683	-	2,683
Customer Services	-	-	89,468	571,772	89,468	571,772
Total Expenses	82,079,770	77,373,724	2,508,940	2,975,610	84,588,710	80,349,334
Change in Net Position before Transfers	5,412,968	(1,117,644)	185,085	(74,623)	5,598,053	(1,192,267)
Transfers	(57,048)	(634,498)	57,048	634,498	-	-
Change in Net Position	5,355,920	(1,752,142)	242,133	559,875	5,598,053	(1,192,267)
Net Position - Beginning of Year	63,199,502	64,951,644	1,137,731	577,856	64,337,233	65,529,500
Net Position - End of Year	\$ 68,555,422	\$ 63,199,502	\$ 1,379,864	\$ 1,137,731	\$ 69,935,286	\$ 64,337,233

Governmental Activities

The unique nature of property taxes in Ohio creates the need to routinely seek voter approval for operating funds. The overall revenue generated by the 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 school districts dependent upon property taxes are hampered by a lack of revenue growth and must regularly return to the voters to maintain a constant level of service. Property taxes made up 49.4 percent of revenues for governmental activities for the District in fiscal year 2014. Property taxes increased by \$8,502,786 from prior year as a result of the passage of a new levy in November 2013. General grants and entitlements represented 32.2 percent of governmental activity revenue in fiscal year 2014. The increase in grants and entitlements can be attributed to a reimbursement received from the Ohio Department of Education for catastrophic costs related to special education.

Instruction comprises 56.6 percent of governmental program expenses. Pupils and Instructional Staff comprised 11.3 percent; Board of Education, Administration, Fiscal Services, and Business comprised 10.0 percent; Operations and Maintenance of Plant comprised 8.7 percent; and Pupil Transportation comprised 5.8 percent of governmental program expenses. Interest and fiscal charges were 2.3 percent of governmental program expenses. Most of the interest and fiscal charges were attributed to outstanding debt issues previously approved by the residents of the District to fund capital projects.

The Statement of Activities shows the cost of program services and the charges for services and grants offsetting those services for 2014 and 2013. Table 3 shows the total cost for services for governmental activities and the net cost of services. That is, it identifies the cost of these services supported by tax revenue and unrestricted State entitlements.

Table 3 – Governmental Activities

	Total Cost of Services 2014	Total Cost of Services 2013	Net Cost of Services 2014	Net Cost of Services 2013
Instruction	\$ 46,480,094	\$ 43,127,316	\$ 41,876,223	\$ 39,151,167
Supporting Services:				
Pupils and Instructional Staff	9,288,960	9,775,046	8,042,210	8,315,920
Board of Education, Administration, Fiscal Services, and Business	8,228,665	7,445,886	8,033,419	7,097,165
Operation and Maintenance of Plant	7,103,981	6,930,699	5,532,057	6,890,357
Pupil Transportation	4,735,717	4,519,965	4,704,479	4,441,876
Central	1,912,031	1,710,140	1,898,531	1,696,640
Operation of Non-Instructional Services	1,280,188	879,096	469,727	28,357
Extracurricular Activities	1,124,057	1,025,761	823,434	703,826
Interest and fiscal charges	1,926,077	1,959,815	1,496,490	1,959,815
Total cost of service	\$ 82,079,770	\$ 77,373,724	\$ 72,876,570	\$ 70,285,123

The dependence upon general revenues for governmental activities is apparent. Over 88.8 percent of governmental activities are supported through taxes and other general revenues. In fiscal year 2014, other general revenues are mostly comprised of grants and entitlements. For all governmental activities, general revenue support is 89.5 percent of total governmental revenues. The community, as a whole, is the primary support for the District.

Business Type Activities

Business-type activities include the food service operation, the sale of uniform school supplies, and an automotive shop customer service operation. These programs had revenues of \$2,694,025 and expenses of \$2,508,940 in fiscal year 2014. The food service and the automotive shop customer service activities experienced increases in net position during fiscal year 2014. The uniform school supplies activity remained unchanged in net position for fiscal year 2014. The largest increase in net position can be attributed to the food service activity as a result of increases in grants received for 2014 compared to 2013. Reviews of these operations, including consideration of price adjustments and expense control, is ongoing.

The School District's Funds

The District's governmental funds are accounted for using the modified accrual basis of accounting. All governmental funds had total revenues of \$86,644,991 and expenditures of \$84,624,626 (including other financing sources and uses). The net increase in fund balances (including Other Financing Sources and Uses) of \$2,020,365 was due in part, to the District seeing an increase in property tax revenues as a result of the passage of a recent tax levy. The District has also made concentrated efforts to control costs throughout the District as well as recognizing cost savings from recently constructed elementary school building. These buildings replaced six old and out-dated buildings. Due to the state of public school funding in Ohio, the current system does not allow for built in adjustments to revenue streams as operating costs increase. Ohio school districts are generally required to place funding issues on the ballot every three to five years in order to increase funding for the increased cost of doing business.

Due to an increase in property tax revenues, the general fund experienced a net increase in fund balance of \$2,741,126. The bond retirement fund experienced an increase in taxes when compared to prior year. This increase in taxes was not able to generate enough revenues to exceed current year debt service requirements which lead to the net decrease in fund balance of \$499,402. All other governmental funds netted a decrease in fund balance of \$221,359 in total.

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. The District uses site-based budgeting and the budgeting systems are designed to tightly control total site budgets but provide flexibility for site management.

For the general fund, the total final budget basis revenue was increased to \$72,352,942 from the total original budget estimate of \$71,237,718 (including other financing sources), due mainly to an increase in anticipated tax revenues. Actual tax revenues were significantly higher than the final amended budget; however this increase was offset by a decrease in intergovernmental revenues.

The final appropriations of \$72,372,677 (including other financing uses) remained unchanged from the original appropriations.

The District's ending unobligated cash balance was \$693,803 below the final budgeted amount.

Capital Assets and Debt Administration

Capital Assets

At the end of fiscal year 2014, the District had \$85,510,969 invested in land, land improvements, buildings and improvements, furniture and equipment, and vehicles of which, \$84,924,239 represented governmental activities. Table 4 shows fiscal year 2014 balances compared to 2013.

Table 4 - Capital Assets at June 30 (net of depreciation)

	Governmental Activities		Business-Type Activities		Total	
	2014	2013	2014	2013	2014	2013
Land	\$ 2,052,789	\$ 2,052,789	\$ -	\$ -	\$ 2,052,789	\$ 2,052,789
Construction in progress	-	630,841	-	-	-	630,841
Land Improvements	6,500,860	6,875,444	-	-	6,500,860	6,875,444
Buildings and Improvements	74,617,373	75,576,832	-	-	74,617,373	75,576,832
Furniture and Equipment	958,564	639,754	10,050	10,350	968,614	650,104
Vehicles	794,653	1,000,095	576,680	626,504	1,371,333	1,626,599
Total Capital Assets	\$ 84,924,239	\$ 86,775,755	\$ 586,730	\$ 636,854	\$ 85,510,969	\$ 87,412,609

For fiscal year 2014, Ohio law required school districts to set aside three percent of certain revenues for capital improvements. For fiscal 2014, this amounted to \$896,409 for the set-aside. For fiscal year 2014, the District had qualifying disbursements or offsets exceeding the requirement. The District has budgeted to meet this requirement.

Additional information on capital asset policies and activity are contained in Notes 2 and 11 of the basic financial statements.

Debt

At June 30, 2014, the District had \$43,101,800 in debt outstanding with \$2,938,200 due within one year. Table 5 summarizes the District’s bonds and notes outstanding.

Table 5 - Outstanding Debt at Year End

	Governmental Activities	
	2014	2013
General Obligation Bonds:		
Energy Conservation Bonds	\$ 1,616,800	\$ 1,891,200
School and Library Refunding	445,000	805,000
Classroom Facilities and School Improvements	36,440,000	37,064,828
Long-Term Tax Anticipation Notes	4,600,000	5,710,000
Total Outstanding Debt	\$ 43,101,800	\$ 45,471,028

The energy conservation bonds were issued to replace heating systems and lighting systems at several schools throughout the District. Both bonds will be repaid in 15 years from the bond retirement fund.

In 2004, the District issued \$6.5 million, ten year tax anticipation notes for the renovation and equipping of three school buildings, parking lot resurfacing and track resurfacing.

In 2006, the District issued bonds to refund most of the school refunding and library improvement issues.

In 2010, the District issued bonds to finance multiple school building construction and improvement projects.

In 2012, the District issued \$4.185 million, ten year tax anticipation notes for various construction projects.

At June 30, 2014, the District’s overall legal debt margin was \$19,987,980 with an unvoted debt margin of \$586,839. The District maintains an A-1 bond rating.

Additional information on debt policies and activity are contained in Notes 2 and 12 of the basic financial statements.

For the Future

Due to the economic downturn and changes in state funding to public schools, the last several years have been very challenging. The District has responded to lost revenues by reducing operating expenditures. In fact, total General Fund expenditures in fiscal year 2014 were \$3.2 million less than in fiscal year 2008 (on a cash basis).

Most of the operating expenditure savings came by way of staffing reductions. Over the last four years, the District has reduced its staff by over 100 full-time equivalents. Additionally, concessions equaling 3 percent of wages were negotiated with all bargaining units in fiscal year 2012. The Board recently agreed to a three-year bargaining agreement with the Euclid Teachers’ Association that caps the Board’s annual total cost increase at two percent.

In November 2013, the voters of Euclid approved a ten-year \$5.4 million operating levy. This new funding source, along with the lower operating budget, will allow the District to operate at the current level of programs and services for several years. The District's stated goal is to not seek an additional operating levy until November 2016.

In September 2012, four new elementary buildings were opened. These buildings represented the first phase of the District's Ohio Schools Facilities Program to completely rebuild all of the school buildings. Operational savings of approximately \$1 million per year are being realized as these four elementary buildings replaced six old elementary buildings. The Board of Education has recently begun the planning phase of the facilities program for the secondary schools.

Contacting the School District's Financial Management

This financial report is designed to provide our citizens, taxpayers, investors, and creditors with a general overview of the District's finances and to show the District's accountability for the money it receives. If you have any questions about this report or need additional information, contact Stephen Vasek, Treasurer at Euclid City School District, 651 East 222 Street, Euclid, Ohio 44123-2090 or e-mail at svasek@euclidschools.org.

Basic Financial Statements

Statement of Net Position

June 30, 2014

	Governmental Activities	Business-Type Activities	Total
ASSETS			
Equity in Pooled Cash, Cash Equivalents, and Investments	\$ 22,170,310	\$ 828,859	\$ 22,999,169
Income Taxes Receivable	489,547	-	489,547
Property Taxes Receivable	45,159,602	-	45,159,602
Accounts Receivable	364,924	-	364,924
Intergovernmental Receivable	1,637,088	28,183	1,665,271
Internal Balances	3,000	(3,000)	-
Materials and Supplies Inventory	24,232	30,257	54,489
Prepaid Items	17,696	-	17,696
Nondepreciable Capital Assets	2,052,789	-	2,052,789
Depreciable Capital Assets, Net	82,871,450	586,730	83,458,180
Total Assets	154,790,638	1,471,029	156,261,667
LIABILITIES			
Accounts Payable	949,128	-	949,128
Accrued Wages and Benefits	7,942,723	12,352	7,955,075
Intergovernmental Payable	1,831,092	55,455	1,886,547
Accrued Interest Payable	546,564	-	546,564
Long-term Liabilities:			
Due within one year	4,118,076	9,647	4,127,723
Due in more than one year	41,484,567	13,711	41,498,278
Total Liabilities	56,872,150	91,165	56,963,315
DEFERRED INFLOWS OF RESOURCES			
Property Taxes	29,333,538	-	29,333,538
Payments in Lieu of Taxes	29,528	-	29,528
Total Deferred Inflows of Resources	29,363,066	-	29,363,066
NET POSITION			
Net Investment in Capital Assets	41,760,027	586,730	42,346,757
Restricted:			
Capital Projects	2,894,337	-	2,894,337
Debt Service	4,058,201	-	4,058,201
State Funded Programs	70,898	-	70,898
Federally Funded Programs	52,778	-	52,778
Classroom Facilities Maintenance	1,212,917	-	1,212,917
Student Activities	16,753	-	16,753
Set-Asides	476,511	-	476,511
Other Purposes	82,342	-	82,342
Unrestricted	17,930,658	793,134	18,723,792
Total Net Position	\$ 68,555,422	\$ 1,379,864	\$ 69,935,286

See accompanying notes to the basic financial statements.

Statement of Activities

For the Fiscal Year Ended June 30, 2014

	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Position		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-type Activities	Total
Governmental activities:							
Instruction:							
Regular	\$ 28,523,851	\$ 222,585	\$ 710,530	\$ -	\$ (27,590,736)	\$ -	\$ (27,590,736)
Special	16,727,493	-	3,572,438	-	(13,155,055)	-	(13,155,055)
Vocational	1,188,650	94,668	-	-	(1,093,982)	-	(1,093,982)
Adult/Continuing Instruction	4,812	-	3,650	-	(1,162)	-	(1,162)
Other	35,288	-	-	-	(35,288)	-	(35,288)
Supporting Services:							
Pupils	6,303,209	-	263,801	-	(6,039,408)	-	(6,039,408)
Instructional Staff	2,985,751	-	982,949	-	(2,002,802)	-	(2,002,802)
Board of Education	126,078	-	-	-	(126,078)	-	(126,078)
Administration	5,394,761	-	158,991	-	(5,235,770)	-	(5,235,770)
Fiscal Services	1,973,807	-	36,255	-	(1,937,552)	-	(1,937,552)
Business	734,019	-	-	-	(734,019)	-	(734,019)
Operation and Maintenance of Plant	7,103,981	26,185	872	1,544,867	(5,532,057)	-	(5,532,057)
Pupil Transportation	4,735,717	31,238	-	-	(4,704,479)	-	(4,704,479)
Central	1,912,031	13,500	-	-	(1,898,531)	-	(1,898,531)
Operation of Non-Instructional Services	1,280,188	-	806,356	4,105	(469,727)	-	(469,727)
Extracurricular Activities	1,124,057	300,623	-	-	(823,434)	-	(823,434)
Interest and Fiscal Charges	1,926,077	-	429,587	-	(1,496,490)	-	(1,496,490)
Total Governmental activities	<u>82,079,770</u>	<u>688,799</u>	<u>6,965,429</u>	<u>1,548,972</u>	<u>(72,876,570)</u>	<u>-</u>	<u>(72,876,570)</u>
Business-type activities:							
Food Service	2,419,472	317,284	2,224,500	-	-	122,312	122,312
Customer Services	89,468	44,222	73,096	-	-	27,850	27,850
Total Business-type activities	<u>2,508,940</u>	<u>361,506</u>	<u>2,297,596</u>	<u>-</u>	<u>-</u>	<u>150,162</u>	<u>150,162</u>
Totals	<u>\$ 84,588,710</u>	<u>\$ 1,050,305</u>	<u>\$ 9,263,025</u>	<u>\$ 1,548,972</u>	<u>(72,876,570)</u>	<u>150,162</u>	<u>(72,726,408)</u>
General Revenues:							
Property Taxes levied for:							
General Purposes					39,219,098	-	39,219,098
Debt Service					3,615,611	-	3,615,611
Capital Outlay					393,418	-	393,418
School District Income Taxes levied for:							
General Purposes					6,081,191	-	6,081,191
Payment in Lieu of Taxes					31,043	-	31,043
Grants & Entitlements not restricted to specific programs					28,203,345	-	28,203,345
Investment Income					16,217	768	16,985
Gain on Sale of Capital Assets					10,287	-	10,287
All Other Revenues					719,328	34,155	753,483
Transfers					(57,048)	57,048	-
Total General Revenues and Transfers					<u>78,232,490</u>	<u>91,971</u>	<u>78,324,461</u>
Change in Net Position					<u>5,355,920</u>	<u>242,133</u>	<u>5,598,053</u>
Net Position - Beginning of Year					<u>63,199,502</u>	<u>1,137,731</u>	<u>64,337,233</u>
Net Position - End of Year					<u>\$ 68,555,422</u>	<u>\$ 1,379,864</u>	<u>\$ 69,935,286</u>

See accompanying notes to the basic financial statements.

**Balance Sheet
Governmental Funds**

June 30, 2014

	General	Bond Retirement	Other Governmental Funds	Total Governmental Funds
ASSETS				
Equity in Pooled Cash, Cash Equivalents, and Investments	\$ 2,896,678	\$ 3,571,543	\$ 4,442,327	\$ 10,910,548
Materials and Supplies Inventory	24,232	-	-	24,232
Accounts Receivable	302,929	-	45,370	348,299
Interfund Receivable	508,997	-	-	508,997
Intergovernmental Receivable	1,440,634	-	196,454	1,637,088
Prepaid Items	17,696	-	-	17,696
Income Taxes Receivable	489,547	-	-	489,547
Property Taxes Receivable	40,935,972	2,799,118	1,424,512	45,159,602
Total Assets	\$ 46,616,685	\$ 6,370,661	\$ 6,108,663	\$ 59,096,009
LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES				
Liabilities:				
Accounts Payable	\$ 909,531	\$ -	\$ 39,597	\$ 949,128
Accrued Wages and Benefits	7,497,138	-	441,099	7,938,237
Intergovernmental Payable	1,466,375	-	61,618	1,527,993
Interfund Payable	-	-	505,997	505,997
Total Liabilities	9,873,044	-	1,048,311	10,921,355
Deferred Inflows of Resources				
Property Taxes	26,672,449	1,765,896	895,193	29,333,538
Payments in Lieu of Taxes	29,528	-	-	29,528
Unavailable Revenue - Delinquent Property Taxes	7,555,943	547,338	280,401	8,383,682
Unavailable Revenue - Grants	-	-	196,454	196,454
Unavailable Revenue - Other	258,872	-	45,370	304,242
Total Deferred Inflows of Resources	34,516,792	2,313,234	1,417,418	38,247,444
Fund Balances:				
Nonspendable	41,928	-	-	41,928
Restricted	-	4,057,427	3,840,428	7,897,855
Committed	121,624	-	81,741	203,365
Assigned	1,819,507	-	56,684	1,876,191
Unassigned (Deficit)	243,790	-	(335,919)	(92,129)
Total Fund Balances	2,226,849	4,057,427	3,642,934	9,927,210
Total Liabilities, Deferred Inflows of Resources and Fund Balances	\$ 46,616,685	\$ 6,370,661	\$ 6,108,663	\$ 59,096,009

See accompanying notes to the basic financial statements.

**Reconciliation of Total Governmental Fund Balances to
Net Position of Governmental Activities**

June 30, 2014

Total Governmental Fund Balances \$ 9,927,210

*Amounts reported for Governmental Activities in the Statement of Net Position
are different because:*

Capital Assets used in Governmental Activities are not financial resources
and, therefore, are not reported in the funds

Total Governmental Activities' capital assets	\$ 84,924,239	
Total Internal Service capital assets	<u>(1,752)</u>	
Total		84,922,487

Other long-term assets are not available to pay for current-period expenditures
and, therefore, are unavailable revenue in the funds:

Delinquent property taxes	8,383,682	
Intergovernmental grants	196,454	
Other revenues	<u>304,242</u>	
Total		8,884,378

Internal Service funds are used by management to charge the costs
of certain activities, such as insurance to individual funds. The assets
and liabilities of the District Internal Service funds are included in
Governmental Activities in the Statement of Net Position. 10,259,488

Long-term liabilities, including bonds payable, are not due and payable in
the current period and therefore are not reported in the funds:

General obligation bonds	(38,501,800)	
Tax anticipation notes payable	(4,600,000)	
Unamortized bond premiums	(62,412)	
Compensated absences	(1,727,365)	
Accrued interest payable	<u>(546,564)</u>	
Total		<u>(45,438,141)</u>

Net Position of Governmental Activities **\$ 68,555,422**

See accompanying notes to the basic financial statements.

**Statement of Revenues, Expenditures, and Changes in Fund Balances
Governmental Funds**

For the Fiscal Year Ended June 30, 2014

	General	Bond Retirement	Other Governmental Funds	Total Governmental Funds
REVENUES				
Taxes	\$ 44,048,751	\$ 3,490,628	\$ 354,088	\$ 47,893,467
Intergovernmental	29,061,393	768,575	7,262,354	37,092,322
Interest	11,570	-	4,647	16,217
Tuition	146,448	-	-	146,448
Extracurricular Activities	93,197	-	176,773	269,970
Charges for Services	129,395	-	-	129,395
Contributions and Donations	6,186	-	-	6,186
Transportation Fees	31,238	-	24,467	55,705
Classroom Materials and Fees	81,095	-	-	81,095
Miscellaneous	520,195	-	169,840	690,035
Total Revenues	<u>74,129,468</u>	<u>4,259,203</u>	<u>7,992,169</u>	<u>86,380,840</u>
EXPENDITURES				
Current:				
Instruction:				
Regular	24,806,661	-	1,632,352	26,439,013
Special	14,488,249	-	2,421,451	16,909,700
Vocational	1,206,645	-	-	1,206,645
Adult/Continuing Instruction	-	-	5,939	5,939
Other	39,672	-	-	39,672
Supporting Services:				
Pupils	6,183,483	-	231,660	6,415,143
Instructional Staff	2,207,462	-	809,440	3,016,902
Board of Education	127,451	-	-	127,451
Administration	5,312,869	-	158,019	5,470,888
Fiscal Services	1,922,990	-	50,817	1,973,807
Business	664,588	-	70,316	734,904
Operation and Maintenance of Plant Services	6,923,640	-	231,101	7,154,741
Pupil Transportation	4,579,601	-	-	4,579,601
Central	1,705,669	-	73,021	1,778,690
Operation of Non-Instructional Services:				
Food Service Operations	-	-	4,105	4,105
Community Services	42,566	-	1,225,031	1,267,597
Extracurricular Activities	877,013	-	253,792	1,130,805
Capital Outlay	-	-	1,299,506	1,299,506
Debt Service:				
Principal Retirement	-	2,369,228	-	2,369,228
Interest and Fiscal Charges	-	2,389,377	-	2,389,377
Total Expenditures	<u>71,088,559</u>	<u>4,758,605</u>	<u>8,466,550</u>	<u>84,313,714</u>
Excess of Revenues Over (Under) Expenditures	<u>3,040,909</u>	<u>(499,402)</u>	<u>(474,381)</u>	<u>2,067,126</u>
OTHER FINANCING SOURCES (USES)				
Sale of Capital Assets	7,434	-	2,853	10,287
Transfers In	-	-	250,169	250,169
Transfers Out	(307,217)	-	-	(307,217)
Total Other Financing Sources (Uses)	<u>(299,783)</u>	<u>-</u>	<u>253,022</u>	<u>(46,761)</u>
Net Change in Fund Balances	2,741,126	(499,402)	(221,359)	2,020,365
Fund Balances - Beginning of Year	(514,277)	4,556,829	3,864,293	7,906,845
Fund Balances - End of Year	<u>\$ 2,226,849</u>	<u>\$ 4,057,427</u>	<u>\$ 3,642,934</u>	<u>\$ 9,927,210</u>

See accompanying notes to the basic financial statements.

Reconciliation of Statement of Revenues, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities

For the Fiscal Year Ended June 30, 2014

Net Change in Fund Balances-Total Governmental Funds \$ 2,020,365

Amounts reported for Governmental Activities in the Statement of Activities are different because:

Governmental funds report capital outlays as expenditures. However, in the Statement of Activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which depreciation exceeded capital outlay in the current period.

Capital outlay, net of Internal Service capital outlay	\$ 760,635	
Depreciation, net of Internal Service depreciation	(2,613,903)	
Total		(1,853,268)

Revenues in the Statement of Activities that do not provide current financial resources are not reported as revenues in the funds.

Delinquent property taxes	1,415,851	
Intergovernmental grants	(388,903)	
Other revenues	74,663	
Total		1,101,611

Repayment of the District's debt principal are expenditures in the governmental funds, but the repayments reduce long-term liabilities in the Statement of Net Position. 2,369,228

Some expenses reported in the Statement of Activities do not require the use of current financial resources and therefore are not reported as expenditures in Governmental funds.

Bond accretion	326,567	
Unamortized bond premiums	130,692	
Compensated absences	(94,268)	
Accrued interest payable	6,041	
Total		369,032

Internal Service funds are used by management to charge costs to certain activities, such as insurance to individual funds. The net revenue (expense) of the Internal Service fund are reported in the Governmental Activities. 1,348,952

Change in Net Position of Governmental Activities \$ 5,355,920

See accompanying notes to the basic financial statements.

**Statement of Revenues, Expenditures, and Changes in Fund Balance –
Budget and Actual (Non-GAAP Basis) –
General Fund
For the Fiscal Year Ended June 30, 2014**

	Budgeted Amounts		Actual	Variance with
	Original	Final		Final Budget
				Positive (Negative)
Revenues				
Taxes	\$ 37,037,718	\$ 38,152,942	\$ 42,249,591	\$ 4,096,649
Intergovernmental	33,667,737	33,248,610	27,915,482	(5,333,128)
Interest	6,862	6,777	4,363	(2,414)
Tuition	176,625	174,426	146,448	(27,978)
Charges for Services	139,776	138,036	115,895	(22,141)
Transportation Fees	34,716	34,284	28,785	(5,499)
Classroom Materials and Fees	103,568	102,279	85,873	(16,406)
Miscellaneous	70,716	69,837	58,634	(11,203)
Total Revenues	<u>71,237,718</u>	<u>71,927,191</u>	<u>70,605,071</u>	<u>(1,322,120)</u>
Expenditures				
Current:				
Instruction:				
Regular	25,071,257	25,071,257	24,318,212	753,045
Special	15,225,737	15,225,737	14,907,486	318,251
Vocational	1,311,463	1,311,463	1,322,304	(10,841)
Other	54,140	54,140	30,423	23,717
Supporting Services:				
Pupils	5,730,635	5,730,635	6,220,027	(489,392)
Instructional Staff	2,641,749	2,641,749	2,329,962	311,787
Board of Education	167,339	167,339	128,238	39,101
Administration	5,306,829	5,306,829	5,195,949	110,880
Fiscal Services	2,053,807	2,053,807	1,942,189	111,618
Business	518,291	518,291	671,966	(153,675)
Operation and Maintenance of Plant Services	6,627,752	6,627,752	7,164,579	(536,827)
Pupil Transportation	4,501,073	4,501,073	4,527,788	(26,715)
Central	1,830,496	1,830,496	1,644,840	185,656
Operation of Non-Instructional Services	13,414	13,414	42,815	(29,401)
Extracurricular Activities	728,695	728,695	747,365	(18,670)
Total Expenditures	<u>71,782,677</u>	<u>71,782,677</u>	<u>71,194,143</u>	<u>588,534</u>
Excess of Revenues Over Expenditures	<u>(544,959)</u>	<u>144,514</u>	<u>(589,072)</u>	<u>(733,586)</u>
Other Financing Sources (Uses)				
Sale of Capital Assets	-	6,924	6,924	-
Refund of Prior Year Expenditures	-	418,827	418,827	-
Advances Out	-	-	(243,000)	(243,000)
Transfers Out	(390,000)	(390,000)	(307,217)	82,783
Contingencies	(200,000)	(200,000)	-	200,000
Total Other Financing Sources (Uses)	<u>(590,000)</u>	<u>(164,249)</u>	<u>(124,466)</u>	<u>39,783</u>
Net Change in Fund Balance	<u>(1,134,959)</u>	<u>(19,735)</u>	<u>(713,538)</u>	<u>(693,803)</u>
Fund Balance - Beginning of Year	616,765	616,765	616,765	-
Prior Year Encumbrances Appropriated	1,161,845	1,161,845	1,161,845	-
Fund Balance - End of Year	<u>\$ 643,651</u>	<u>\$ 1,758,875</u>	<u>\$ 1,065,072</u>	<u>\$ (693,803)</u>

See accompanying notes to the basic financial statements.

**Statement of Fund Net Position
Proprietary Funds**

June 30, 2014

	<u>Business-Type Activities - Enterprise Funds</u>	<u>Governmental Activities - Internal Service Funds</u>
ASSETS		
Current Assets:		
Equity in Pooled Cash, Cash Equivalents, and Investments	\$ 828,859	\$ 11,259,762
Materials and Supplies Inventory	30,257	-
Accounts Receivable	-	16,625
Intergovernmental Receivable	28,183	-
Total Current Assets	<u>887,299</u>	<u>11,276,387</u>
Noncurrent Assets:		
Capital Assets:		
Depreciable Capital Assets, Net of Depreciation	586,730	1,752
Total Assets	<u>1,474,029</u>	<u>11,278,139</u>
LIABILITIES		
Current Liabilities:		
Accrued Wages and Benefits	12,352	4,486
Compensated Absences Payable	9,647	-
Intergovernmental Payable	55,455	303,099
Interfund Payable	3,000	-
Insurance Claims Payable	-	461,000
Workers' Compensation Claims Payable	-	85,801
Total Current Liabilities	<u>80,454</u>	<u>854,386</u>
Noncurrent Liabilities:		
Compensated Absences Payable	13,711	-
Workers' Compensation Claims Payable	-	164,265
Total Liabilities	<u>94,165</u>	<u>1,018,651</u>
NET POSITION		
Investment In Capital Assets	586,730	1,752
Unrestricted	793,134	10,257,736
Total Net Position	<u>\$ 1,379,864</u>	<u>\$ 10,259,488</u>

See accompanying notes to the basic financial statements.

**Statement of Revenues, Expenses, and Changes in Fund Net Position
Proprietary Funds**

For the Fiscal Year Ended June 30, 2014

	<u>Business-Type Activities - Enterprise Funds</u>	<u>Governmental Activities - Internal Service Fund</u>
OPERATING REVENUES		
Food Services	\$ 317,284	\$ -
Charges for Services	14,662	6,758,871
Miscellaneous	34,155	2,849,422
Classroom Materials and Fees	-	78,198
Extracurricular Activities	1,282	12,321
Tuition	28,278	-
Transportation Fees	-	9,526
Total Operating Revenues	<u>395,661</u>	<u>9,708,338</u>
OPERATING EXPENSES		
Salaries	913,164	1,215,301
Fringe Benefits	375,777	6,849,361
Purchased Services	114,687	107,797
Materials and Supplies	1,032,426	7,057
Depreciation	50,124	700
Other	22,762	179,170
Total Operating Expenses	<u>2,508,940</u>	<u>8,359,386</u>
Operating Income (Loss)	<u>(2,113,279)</u>	<u>1,348,952</u>
NONOPERATING REVENUES		
Interest	768	-
Intergovernmental	2,133,066	-
Donated Commodities	164,530	-
Total Nonoperating Revenues	<u>2,298,364</u>	<u>-</u>
Transfers In	57,048	-
Change in Net Position	242,133	1,348,952
Net Position - Beginning of Year	<u>1,137,731</u>	<u>8,910,536</u>
Net Position - End of Year	<u>\$ 1,379,864</u>	<u>\$ 10,259,488</u>

See accompanying notes to the basic financial statements.

**Statement of Cash Flows
Proprietary Funds**

For the Fiscal Year Ended June 30, 2014

	Business-Type Activities Enterprise Funds	Governmental Activities - Internal Service Fund
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash Received from Customers	\$ 361,506	\$ 6,858,916
Other Cash Receipts	28,672	3,063,901
Cash Payments to Employees for Services	(958,979)	(1,211,076)
Cash Payments for Employee Benefits	(421,505)	(7,532,627)
Cash Payments for Goods and Services	(986,728)	(115,524)
Cash Payments for Other Expenses	(22,762)	(180,677)
Net Cash Provided by (Used in) Operating Activities	(1,999,796)	882,913
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Operating Grants Received	2,133,066	-
Transfers In	57,048	-
Advances In	3,000	-
Net Cash Provided by Noncapital Financing Activities	2,193,114	-
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Payments for Capital Acquisitions	-	(2,452)
Net Cash Used in Capital and Related Financing Activities	-	(2,452)
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest on Investments	768	-
Net Cash Provided by Investing Activities	768	-
Net Increase in Cash and Cash Equivalents	194,086	880,461
Cash and Cash Equivalents - Beginning of Year	634,773	10,379,301
Cash and Cash Equivalents - End of Year	\$ 828,859	\$ 11,259,762
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES		
Operating Income (Loss)	\$ (2,113,279)	\$ 1,348,952
Adjustments:		
Depreciation	50,124	700
Federal Donated Commodities	164,530	-
(Increase) Decrease in Assets:		
Accounts Receivable	-	(16,625)
Intergovernmental Receivable	(5,483)	231,104
Materials and Supplies Inventory	(3,388)	-
Increase (Decrease) in Liabilities:		
Accounts Payable	(757)	(670)
Accrued Wages and Benefits	(32,413)	4,225
Compensated Absences Payable	(13,402)	-
Intergovernmental Payable	(45,728)	(153,913)
Claims Payable	-	(530,860)
Net Cash Provided by (Used in) Operating Activities	\$ (1,999,796)	\$ 882,913

Schedule of Noncash Non-Capital and Capital Financing Activities

- During the year, the Food Service fund received donated commodities of \$164,530.

See accompanying notes to the basic financial statements.

**Statement of Assets and Liabilities
Fiduciary Funds**

June 30, 2014

	<u>Agency Funds</u>
Assets	
Equity in Pooled Cash, Cash Equivalents, and Investments	<u>\$ 34,680</u>
Liabilities	
Due to Students	<u>\$ 34,680</u>

See accompanying notes to the basic financial statements.

NOTES TO THE FINANCIAL STATEMENTS

**Notes to the Basic Financial Statements
June 30, 2014**

NOTE 1: DESCRIPTION OF THE SCHOOL DISTRICT AND REPORTING ENTITY

The Euclid City 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 city district as defined by Section 3311.02 of the Ohio Revised Code. The District operates under an elected Board of Education (five members) and is responsible for the provisions of public education to residents of the District.

Average daily membership as of June 30, 2014 was 5,345. The District employed 447 certified employees and 242 non-certified employees.

Reporting Entity

The reporting entity is comprised of the primary government, component units, and other organizations that are included to ensure that the financial statements of the District are not misleading. The primary government consists of all funds, departments, boards, and agencies that are not legally separate from the District. For the District, this includes general operations, food service, and student related activities.

Nonpublic Schools – Within the District’s boundaries, Our Lady of Lake, St. John of the Cross (closed in June 2014), and St. Robert-St. William schools are operated through the Cleveland Catholic Diocese. Current State legislation provides funding to these parochial schools. These monies are received and disbursed on behalf of the parochial schools by the Treasurer of the District, as directed by the parochial schools. The activity of these state monies by the District is reflected in a special revenue fund for financial reporting purposes.

Component units are legally separate organizations for which the District is financially accountable. Component units may also include organizations that are fiscally dependent on the District in that the District approves the budget, the issuance of debt, or the levying of taxes. The District has no component units.

The District is associated with two organizations which are defined as a jointly governed organization and a related organization. The Ohio School’s Council Association is a jointly governed organization and the Euclid Public Library is a related organization. The jointly governed organization is presented in Note 17 and the related organization is presented in Note 18 to the basic financial statements.

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

A. Fund Accounting

The District uses funds to report on its financial position and the results of its operations. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain District functions or activities. A fund is defined as a fiscal and accounting entity with a self-balancing set of accounts. The various funds of the District are grouped into the following categories: governmental, proprietary 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 purpose for which they must be used. Current assets are assigned to the fund from 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.

Bond Retirement Fund – This fund is provided to account for the accumulation of resources received from property tax levies, which have been levied for debt charges on bonds, notes, or other loans.

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

Proprietary Funds

Proprietary funds focus on the determination of the changes in net position, financial position and cash flows and are classified as either enterprise or internal service.

Enterprise Funds – Enterprise funds may be used to account for any activity for which a fee is charged to external users for goods or services. The District's enterprise funds account for the provision of food services, uniform school supplies, child care and services to the general public financed by user charges. The District has no major enterprise funds.

Internal Service Funds – Internal service funds account for the financing of goods or services provided by one department or agency to other departments or agencies of the District, or to other governmental units, on a cost-reimbursement basis. The internal service funds of the District account for two self-insurance programs and purchase of services and equipment for internal use. The two self-insurance programs provide medical, dental and vision benefits to employees along with workers' compensation claims.

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

A. Fund Accounting (Continued)

Fiduciary Funds

Fiduciary fund reporting focuses on net position and changes in net position. The fiduciary fund category is split into four classifications: pension trust funds, investment trust funds, private-purpose trust funds and agency funds. Trust funds are used to account for assets held by the District under a trust agreement for individuals, private organizations, or other governments and are therefore not available to support the District's own programs. The District has no trust funds. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. The District's only agency fund is to account for student activities.

B. Basis of Presentation

Government-wide Financial Statements – The statement of net position and the statement of activities display information about the District as a whole. These statements include the financial activities of the primary government, except for fiduciary funds. Internal service fund activity is eliminated to avoid “doubling up” revenues and expenses. An exception to this general rule is that interfund services provided and used are not eliminated in the process of consolidation. The statements distinguish between those activities of the District that are governmental and those that are considered business-type activities.

The government-wide statements are prepared using the economic resources measurement focus. This is the same approach used in the preparation of the proprietary fund financial statements, but differs from the manner in which governmental fund financial statements are prepared. Governmental fund financial statements therefore, include reconciliations with brief explanations to better identify the relationship between the government-wide statements and the statements for governmental funds.

The government-wide statement of activities presents a comparison between direct expenses and program revenues for each segment of the business-type activities of the District and for each function or program of the District's governmental activities. Direct expenses are those that are specifically associated with a service, program or department and are therefore, clearly identifiable to a particular function. Program revenues 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. Revenues which are not classified as program revenues are presented as general revenues of the District, with certain limited exceptions. The comparison of direct expenses with program revenues identifies the extent to which each business segment or governmental function is self-financing or draws from the general revenues of the District.

Fund Financial Statements – Fund financial statements report detailed information about the District. The focus of governmental and enterprise fund financial statements is on major funds rather than reporting funds by type. Each major fund is presented in a separate column. Nonmajor funds are aggregated and presented in a single column. Internal service funds are combined and the totals are presented in a single column on the face of the proprietary fund statements. Fiduciary funds are reported by fund type.

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

B. Basis of Presentation (Continued)

The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. All governmental fund types are accounted for using a flow of current financial resources measurement focus. The financial statements for governmental funds are a balance sheet, which generally includes only current assets and current liabilities, and a statement of revenues, expenditures, and changes in fund balances, which reports on the sources (i.e., revenues and other financing sources) and uses (i.e., expenditures and other financing uses) of current financial resources.

All proprietary funds are accounted for on a flow of economic resources measurement focus. With this measurement focus, all assets and all liabilities associated with the operation of these funds are included on the statement of fund net position. The statement of revenues, expenses, and changes in fund net position presents increases (i.e., revenues) and decreases (i.e., expenses) in net total assets. The statement of cash flows provides information about how the District finances and meets the cash flow needs of its proprietary activities.

Agency funds do not report a resources measurement focus as they do not report operations.

C. Basis of Accounting

Basis of accounting determines when transactions are recorded in the financial records and reported on the financial statements. Government-wide financial statements are prepared using the accrual basis of accounting. Governmental funds use the modified accrual basis of accounting. The proprietary funds and the fiduciary funds also use the accrual basis of accounting

Revenues – Exchange and Non-Exchange Transactions

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

Non-exchange transactions, in which the District receives value without directly giving equal value in return, include income taxes, property taxes, grants, entitlements, and donations. On an accrual basis, revenue from income taxes is recognized in the fiscal year in which the exchange on which the tax is imposed takes place and revenue from property taxes is recognized in the fiscal year for which the taxes are levied (See Note 8). Revenue from grants, entitlements, and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the fiscal year when use is first permitted, matching requirements, in which the District must provide local resources to be used for a specified purpose, and expenditure requirements, in which the resources are provided to the District on a reimbursement basis. On a modified accrual basis, revenue from non-exchange transactions must also be available before it can be recognized.

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

C. Basis of Accounting (Continued)

Under the modified accrual basis, the following revenue sources are considered to be both measurable and available at fiscal year end: property taxes available as an advance, interest, tuition, grants, student fees and rentals.

Deferred Outflows/Inflows of Resources - In addition to assets, the statements of financial position will sometimes report a separate section for deferred outflows of resources. Deferred outflows of resources, represents a consumption of net position that applies to a future period and will not be recognized as an outflow of resources (expense/expenditure) until then. As of June 30, 2014, the District did not have any deferred outflows of resources.

In addition to liabilities, the statements of financial position report a separate section for deferred inflows of resources. Deferred inflows of resources represent an acquisition of net position that applies to a future period and will not be recognized as an inflow of resources (revenue) until that time. For the District, deferred inflows of resources include property taxes, compensation payments from a tax increment financing (TIF) agreement, and unavailable revenue. Property taxes and the compensation payments from the TIF agreement represent amounts for which there is an enforceable legal claim as of June 30, 2014, but which were levied to finance fiscal year 2015 operations. These amounts have been recorded as a deferred inflow on both the government-wide statement of net position and the governmental fund financial statements. Unavailable revenue is reported only on the governmental funds balance sheet, and represents receivables which will not be collected within the available period. For the District unavailable revenue includes delinquent property taxes, intergovernmental grants, and other revenues. These amounts are deferred and recognized as an inflow of resources in the period the amounts become available.

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

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

D. Cash and Cash Equivalents

Cash received by the District is pooled for investment purposes. Interest in the pool is presented as “equity in pooled cash and cash equivalents” on the financial statements.

During the fiscal year 2014, investments were limited to US Bank First American Government Obligation money market mutual fund, negotiable certificates of deposit, U.S. Government Agency securities, STAR Ohio, and STAR Plus.

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

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

D. Cash and Cash Equivalents (Continued)

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 of Education has, by resolution, specified the funds to receive an allocation of interest earnings. Interest revenue credited to the general fund during fiscal year 2014 amounted to \$11,570, which includes \$9,431 assigned from the other District funds.

For presentation on the financial statement, investments of the cash management pool and investments with an original maturity of three months or less at the time they are purchased by the District are considered to be cash equivalents. Investments with an initial maturity of more than three months that are not purchased from the pool are reported as investments.

E. Restricted Assets

Restricted assets represent cash and cash equivalents and other current assets whose use is limited by legal requirements. See Note 21 for additional information regarding set-asides. As of June 30, 2014, the District did not have any restricted assets.

F. Prepaid Items

Payments made to vendors for services that will benefit periods beyond June 30, 2014 are recorded as prepaid items using the consumption method. A current asset for the prepaid amount is recorded at the time of purchase and an expenditure/expense is reported in the year which services are consumed.

G. Inventory

On government-wide financial statements, inventories are presented at the lower of cost or market on a first-in, first-out basis and are expensed when used.

On fund financial statements, inventories of governmental funds are stated at cost while inventories of proprietary funds are stated at the lower of cost or market. For all funds, cost is determined on a first-in, first-out basis. Inventory in governmental funds consists of expendable supplies held for consumption. The cost of inventory items is recorded as an expenditure in the governmental funds types when used.

Inventories of proprietary funds consist of donated food, purchased food, and school supplies held for resale and are expensed when used.

H. Capital Assets

General capital assets are those assets not specifically related to activities reported in the proprietary funds. These assets generally result from expenditures in the governmental funds. These assets are reported in the governmental activities column of the government-wide statement of net position but are not reported in the fund financial statements. Capital assets utilized by the proprietary funds are reported both in the business-type activities column of the government-wide statement of net position and in the respective funds.

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

H. Capital Assets (Continued)

All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. Donated capital assets are recorded at their fair market values as of the date received. The District’s capitalization threshold for all capital assets is \$5,000. The District does not possess any infrastructure. Improvements are capitalized; the costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset’s life are not capitalized. Interest incurred during the construction of capital assets is not capitalized.

All reported capital assets except land and construction in progress are depreciated. Improvements are depreciated over the remaining useful lives of the related capital asset. Depreciation is computed using the straight-line method over the following useful lives:

Description	Governmental Activities Estimated Lives	Business-Type Activities Estimated Lives
Land Improvements	20 years	N/A
Buildings and Improvements	10-80 years	N/A
Furniture and Equipment	5-10 years	3-10 years
Vehicles	10 years	N/A

I. Interfund Balances

On fund financial statements, receivables and payables resulting from short-term interfund loans are classified as “interfund receivables/payables”. These amounts are eliminated in the governmental and business-type activities columns of the statement of net position, except for the residual amounts due between governmental and business-type activities, which are presented as internal balances.

J. Compensated Absences

The District reports compensated absences in accordance with the provisions of GASB Statement No. 16, *Accounting for Compensated Absences*. Vacation benefits are accrued as a liability as the benefits are earned if the employees’ rights to receive compensation are attributable to services already rendered and it is probable that the District will compensate the employees for the benefits through paid time off or some other means. The District records a liability for accumulated unused vacation time when earned by all employees with more than one year of service.

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

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

K. Bond Premiums

On the government-wide financial statements, bond premiums are deferred and amortized over the term of the bonds using the straight line method. Bond premiums are presented as an increase of the face amount of the general obligation bonds payable. On fund financial statements, premiums are receipted in the year bonds are issued.

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

L. Accrued Liabilities and Long-Term Obligations

All payables, accrued liabilities, and long-term obligations are reported in the government-wide financial statements, and all payables, accrued liabilities, and long-term obligations payable from proprietary funds are reported on the proprietary fund financial statements.

In general, payables and accrued liabilities that will be paid from governmental funds are reported on the governmental fund financial statements regardless of whether they will be liquidated with current resources. However, claims and judgments, compensated absences, and special termination benefits that will be paid from governmental funds are reported as a liability in the fund financial statements only to the extent that they will be paid with current expendable available financial resources. In general, liabilities that mature or come due for payment during the fiscal year are considered to have been made with current available financial resources. Bonds and other long-term obligations that will be paid from governmental funds are recognized as a liability in the fund financial statements when due.

M. Fund Balance

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

Nonspendable – The nonspendable fund balance category includes amounts that cannot be spent because they are not spendable in form, or legally or contractually required to be maintained intact. The “not in spendable form” criterion includes items that are not expected to be converted to cash. It also includes the long-term amount of loans receivable, as well as property acquired for resale, unless the use of the proceeds from the collection of those receivables or from the sale of those properties is restricted, committed, or assigned.

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

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

Assigned – Amounts in the assigned fund balance classification are intended to be used by the District for specific purposes but do not meet the criteria to be classified as restricted or committed. In governmental funds other than the General Fund, assigned fund balance represents the remaining amount that is not restricted or committed. In the General Fund, assigned amounts would represent intended uses established by the District’s Board of Education.

NOTE 2: **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

M. **Fund Balance (Continued)**

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

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

N. **Net Position**

Net position represents the difference between assets/deferred outflows of resources and liabilities/deferred inflows of resources. Net investment in capital assets consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction or improvement of those assets. Deferred outflows and inflows of resources that are attributable to the acquisition, construction or improvement of those assets or related debt also should be included in this component of net position. Net position is reported as restricted when there are limitations imposed on their use through external restrictions imposed by creditors, grantors or laws or regulations of other governments. The District passed legislation to create a restriction to net position for budget stabilization. This is the only net position restriction imposed through enabling legislation. The net position restricted for state and federally fund programs and student activities have external and internal restrictions imposed by state and federal governments along with the District's Board of Education.

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

O. **Operating Revenues and Expenses**

Operating revenues are those revenues that are generated directly from the primary activity of the proprietary funds. For the District, these revenues are tuition for adult education classes, sales for food service and uniform school supplies, and charges for services for self-insurance programs. Operating expenses are necessary costs incurred to provide the goods or services that are the primary activity of the fund. Any revenues and expenses not meeting the definition of operating are reported as non-operating.

NOTE 2: **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

P. Interfund Transactions

Transfers between governmental and business-type activities on the government-wide statements are reported in the same manner as general revenues.

Exchange transactions between funds are reported as revenues in the seller funds and as expenditures/expenses in the purchaser funds. Flows of cash or goods from one fund to another without a requirement for repayment are reported as interfund transfers. Interfund transfers are reported as other financing sources/uses in governmental funds and after nonoperating revenues/expenses in proprietary funds. Repayments from funds responsible for particular expenditures/expenses to the funds that initially paid for them are not presented on the financial statements.

Q. Extraordinary and Special Items

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

R. Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results may differ from those estimates.

S. Budgetary Accounting

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 appropriations 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 legal level of budgetary control is at the fund, function and object level for the general fund and the fund level for all additional funds. 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. Public hearings are publicized and conducted to obtain taxpayer's comments. The express purpose of this budget document is to reflect the need for existing (or increased) tax rates. The budget includes proposed expenditures and the means of financing for all funds. By no later than January 20, the Board-adopted budget is filed with the Cuyahoga County Budget Commission for rate determination.

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

S. Budgetary Accounting (Continued)

Estimated Resources

Prior to April 1, the Board of Education 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 revenue 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 revenue are identified by the District's Treasurer. The amounts reported in the budgetary statement reflect the amounts set forth in the original and final amended certificates of estimated resources 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 certification saying no new certificate is necessary, the annual appropriation resolution is legally enacted by the Board of Education at the fund, function and object level of expenditures for the general fund and the fund level for all other funds, 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 ordinary expenses of the District. The appropriation resolution, by fund, must be within the estimated resources as certified by the County Budget Commission. 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 or alter total function or object level appropriations within the general fund or fund level for all other funds must be approved by the Board of Education. The Board may pass supplemental fund appropriations provided the total appropriations by fund do not exceed the amounts set forth in the most recent Certificate of Estimated Resources. During the year, several supplemental appropriations were legally enacted; however, none of these amendments were significant. 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.

Encumbrances

As part of formal budgetary control, purchase orders, contracts and other commitments for the expenditure of monies are recorded as the equivalent of expenditures on the non-GAAP budgetary basis in order to reserve that portion of the applicable appropriation and to determine and maintain legal compliance. Expenditures plus encumbrances may not legally exceed appropriations. On the governmental fund financial statements, encumbrances outstanding at year end are reported as part of the respective fund balance classification for subsequent year expenditures. Encumbrances outstanding at year end are not reported on government-wide financial statements.

NOTE 2: **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

S. **Budgetary Accounting (Continued)**

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.

NOTE 3: **COMPLIANCE AND ACCOUNTABILITY**

Accountability

The following funds had negative fund balances at June 30, 2014:

	Deficit
<i><u>Nonmajor Special Revenue Funds</u></i>	
Vocational Education Enhancement	\$ 4,310
Alternative Schools	8,949
Adult Basic Education	453
Title I	322,116
<i><u>Nonmajor Capital Projects Fund</u></i>	
Vocational Education Equipment	91

The fund deficits in the general fund, the nonmajor special revenue funds, and the nonmajor capital projects fund resulted from accrued liabilities. The general fund is liable for the deficits in these funds and will provide operating transfers when cash is required, not when accruals occur.

NOTE 4: **CHANGES IN ACCOUNTING PRINCIPLES**

GASB Statement Number 66, *Technical Corrections-2012-an amendment of GASB Statement No. 10 and No. 62*. The objective of this Statement is to improve accounting and financial reporting for a governmental financial reporting entity by resolving conflicting guidance that resulted from the issuance of two pronouncements, Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, and No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 GASB and AICPA Pronouncements*. The requirements of this Statement are effective for financial statements for periods beginning after December 15, 2012 and have been implemented by the District.

GASB Statement Number 67, *Financial Reporting for Pension Plans-an amendment of GASB Statement No. 25*. The objective of this Statement is to improve financial reporting by state and local governmental pension plans. The requirements of this Statement are effective for financial statements for periods beginning after June 15, 2013 and have been implemented by the District.

GASB Statement Number 70, *Accounting and Financial Reporting for Nonexchange Financial Guarantees*. The objective of this Statement is to improve the recognition, measurement, and disclosure guidance for state and local governments that have extended or received financial guarantees that are nonexchange transactions. The requirements of this Statement are effective for financial statements for periods beginning after June 15, 2013 and have been implemented by the District.

The aforementioned GASB Statements did not have an effect on the District's financial statements.

NOTE 5: BUDGETARY BASIS OF ACCOUNTING

While the District is reporting financial position, results of operations, and changes in fund balances on the basis of generally accepted accounting principles (GAAP), the budgetary basis as provided by law is based upon accounting for certain transactions on a basis of cash receipts, disbursements, and encumbrances. The Statement of Revenues, Expenditures, and Changes in Fund Balances - Budget and Actual (Non-GAAP Basis) for the general fund is presented on the budgetary basis to provide a meaningful comparison of actual results with the budget. The major differences between the budget basis and GAAP basis are as follows:

1. Revenues are recorded when received in cash (budgetary basis) as opposed to when susceptible to accrual (GAAP basis);
2. Expenditures are recorded when paid in cash (budgetary basis) as opposed to when the fund liability is incurred (GAAP basis);
3. Encumbrances are treated as expenditures (budgetary basis) rather than as a part of restricted, committed, and assigned fund balances (GAAP) basis;
4. Unrecorded cash represents amounts received but not included as revenue on the budgetary basis operating statements. These amounts are included as revenue on the GAAP basis operating statement; and
5. Some funds are included in the General Fund (GAAP basis), but have separate legally adopted budgets (budget basis).

The following table summarizes the adjustments necessary to reconcile the GAAP basis statements to the budgetary basis statements for the general fund.

Net Change in Fund Balance	
GAAP Basis	\$ 2,741,126
Net Adjustment for Revenue Accruals	(2,973,982)
Net Adjustments for Expenditure Accruals	1,099,264
Funds with Separate Legally Adopted Budgets	73,776
Adjustment for Encumbrances	(1,653,722)
Budget Basis	\$ (713,538)

NOTE 6: FUND BALANCE

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

Fund Balances	General	Bond Retirement	Other Governmental Funds	Total
<i>Nonspendable</i>				
Prepaid Items	\$ 17,696	\$ -	\$ -	\$ 17,696
Materials and Supplies Inventory	24,232	-	-	24,232
<i>Total Nonspendable</i>	<u>41,928</u>	<u>-</u>	<u>-</u>	<u>41,928</u>
<i>Restricted for</i>				
Classroom Facilities Maintenance	-	-	1,212,917	1,212,917
Athletics	-	-	16,753	16,753
Auxiliary Services	-	-	61,974	61,974
Public School Preschool	-	-	4,917	4,917
Race to the Top	-	-	10,721	10,721
Special Education	-	-	20,141	20,141
Title III - LEP	-	-	522	522
Other Grants	-	-	601	601
Debt Service	-	4,057,427	-	4,057,427
Capital Improvements	-	-	1,771,068	1,771,068
Buildings	-	-	55,562	55,562
Classroom Facilities Project	-	-	685,252	685,252
<i>Total Restricted</i>	<u>-</u>	<u>4,057,427</u>	<u>3,840,428</u>	<u>7,897,855</u>
<i>Committed to</i>				
Termination Benefits	121,624	-	-	121,624
Special Programs	-	-	81,741	81,741
<i>Total Committed</i>	<u>121,624</u>	<u>-</u>	<u>81,741</u>	<u>203,365</u>
<i>Assigned to</i>				
Fiscal Year 2015 Appropriations	499,754	-	-	499,754
Property Replacement	-	-	56,684	56,684
Public School Support	49,053	-	-	49,053
Instructional Activities	847,916	-	-	847,916
Supporting Services	422,059	-	-	422,059
Extracurricular Activities	725	-	-	725
<i>Total Assigned</i>	<u>1,819,507</u>	<u>-</u>	<u>56,684</u>	<u>1,876,191</u>
<i>Unassigned (Deficit)</i>	<u>243,790</u>	<u>-</u>	<u>(335,919)</u>	<u>(92,129)</u>
Total Fund Balances	<u><u>\$ 2,226,849</u></u>	<u><u>\$ 4,057,427</u></u>	<u><u>\$ 3,642,934</u></u>	<u><u>\$ 9,927,210</u></u>

NOTE 7: DEPOSITS AND INVESTMENTS

State statutes classify monies held by the District into three categories.

Active deposits are public deposits necessary to meet current demands on the treasury. Such monies must be maintained either as cash in the District Treasury, in commercial accounts payable or withdrawable on demand, including negotiable order of withdrawal (NOW) accounts, or in money market deposit accounts.

Inactive deposits are public deposits that the Board of Education has identified as not required for use within the current five year period of designation of depositories. Inactive deposits must either be evidenced by certificates of deposit maturing not later than the end of the current period of designation of depositories, or by savings or deposit accounts including, but not limited to, passbook accounts.

Interim deposits are deposits of interim monies. Interim monies are those monies which are not needed for immediate use but which will be needed before the end of the current period of designation of depositories. Interim deposits must be evidenced by time certificates of deposit maturing not more than one year from the date of deposit, or by savings or deposit accounts including passbook accounts.

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

1. United States Treasury notes, bills, bonds, or any other obligations or security issued by the United States Treasury or any other obligation guaranteed as to payment of principal and interest by the United States;
2. Bonds, notes, debentures, or any other obligations or securities issued by any federal government agency or instrumentality, including but not limited to, the Federal National Mortgage Association, Federal Home Loan Bank, Federal Farm Credit Bank, Federal Home Loan Mortgage Corporation, Government National Mortgage Association, and Student Loan Marketing Association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;
3. Written repurchase agreements in the securities listed above;
4. Bonds or other obligations of the State of Ohio or Ohio local governments;
5. Time certificates of deposit or savings or deposit accounts including, but not limited to, passbook accounts;
6. No-load money market mutual funds consisting exclusively of obligations described in division (1) or division (2) of this section and repurchase agreements secured by such obligations;
7. The State Treasurer's investment pool (STAR Ohio);
8. Bankers' acceptances and commercial paper, if training requirements have been met.

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. Investments may only be made through specified dealers and institutions.

The following disclosure is based on the criteria described in GASB Statement No. 40, *Deposits and Investments Risk Disclosures*.

NOTE 7: DEPOSITS AND INVESTMENTS (CONTINUED)

Cash on Hand

At June 30, 2014, the District had \$2,180 in undeposited cash on hand, which is included on the balance sheet of the District as part of “Equity in Pooled Cash and Cash Equivalents”.

Deposits

At June 30, 2014, the carrying amount of the District’s deposits was \$7,993,977 and the bank balance was \$8,407,350. \$3,254,500 of the District’s bank balance was covered by Federal Depository Insurance and \$5,152,850 was uninsured and collateralized with securities held by the pledging financial institution’s trust department or agent but not in the District’s name. Although the securities were held by the pledging institution’s trust department and all statutory requirements for the investments of money had been followed, noncompliance with Federal requirements could potentially subject the District to a successful claim by the FDIC.

Custodial credit risk is the risk that, in the event of a bank failure, the District’s deposits or collateral securities may not be returned. The District’s policy is to place deposits with major local banks approved by the District’s Board of Education. All deposits, except for deposits held by fiscal and escrow agents, are collateralized with eligible securities in amounts equal to at least 105 percent of the carrying value of the deposits. Such collateral, as permitted by Chapter 135 of the ORC, is held in financial institution pools at Federal Reserve banks, or at member banks of the Federal Reserve System in the name of the respective depository bank, and pledged as a pool of collateral against all of the public deposits it holds.

Investments

The District has a formal investment policy. The objective of the policy shall be the preservation of capital and protection of principal while earning investment interest. Safety of principal is the primary objective of the investment program. The District follows GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*, and records all its investments at fair value. All investments are in an internal investment pool.

Investments at year end were as follows:

<u>Investment Type</u>	<u>Investment Maturities (in Years)</u>	<u>Credit Rating (*)</u>	<u>Fair Value</u>
STAR Ohio	< 1	AAAm	\$ 37
Negotiable CDs	> 1	N/A	495,928
U.S. Government Agency Securities	> 1	AA+	14,541,704
Money Market Mutual Fund	< 1	N/A	23
Total Investments			<u>\$ 15,037,692</u>

* Credit rating was obtained from Standard & Poor's.

NOTE 7: DEPOSITS AND INVESTMENTS (CONTINUED)

Interest Rate Risk

As a means of limiting its exposure to fair value of losses caused by rising interest rates, the District's investment policy requires that operating funds be invested primarily in short-term investments maturing within five years from the date of purchase and the District's investment portfolio be structured so that securities mature to meet cash requirements for ongoing operations and/or long-term debt payments. The stated intent of the policy is to avoid the need to sell securities prior to maturity.

Credit Risk

The credit risks of the District's investments are in the table above. Ohio law requires that STAR Ohio maintain the highest rating provided by at least one nationally recognized standard rating service. The District has no investment policy that would further limit its investment choices.

Custodial Credit Risk

For an investment, 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. The District's investments in the money market mutual fund and U.S. Government Agency securities are exposed to custodial credit risk in that it is uninsured, unregistered, and held by the counterparty's trust department or agent but not in the District's name. The District's investment in negotiable certificates of deposit was fully covered by Federal Depository Insurance. The District has no investment policy dealing with investment custodial risk beyond the requirement in State statute that prohibits payment for investments prior to the delivery of the securities representing such investments to the Treasurer or qualified trustee.

Concentration of Credit Risk

The District places no limit on the amount it may invest in any one issuer.

NOTE 8: PROPERTY TAXES

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

Property taxes include amounts levied against all real, public utility, and certain tangible personal property (used in business) located in the District. Real property tax revenue received in calendar year 2014 represents collections of calendar year 2013 taxes. Real property taxes received in calendar year 2014 were levied after April 1, 2013, on the assessed value listed as of January 1, 2013, the lien date. Assessed values for real property taxes are established by State law at 35 percent of appraised market value. Real property taxes are paid annually or semi-annually. If paid annually, payment is due December 31; if paid semi-annually, the first payment is due December 31 with the remainder payable by June 20. Under certain circumstances, State statute permits alternate payment dates to be established.

Public utility property tax revenue received in calendar year 2014 represents collections of calendar year 2013 taxes. Public utility real and tangible personal property taxes received in calendar year 2014 became a lien December 31, 2012, were levied after April 1, 2013 and are collected in 2013 with real property taxes. Public utility real property is assessed at 35 percent of true value; public utility tangible personal property currently is assessed at varying percentages of true value.

NOTE 8: PROPERTY TAXES (CONTINUED)

The District receives property taxes from Cuyahoga County. The County Fiscal Officer 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 2014 operations. The amount available to be advanced can vary based on the date the tax bills are sent.

Accrued property taxes receivable includes real property, public utility property, and tangible personal property taxes which are measurable as of June 30, 2014, and for which there is an enforceable legal claim. Although total property tax collections for the next fiscal year are measurable, only the amount of real property taxes available as an advance at June 30 was levied to finance current fiscal year operations and is reported as revenue at fiscal year end. The portion of the receivable not levied to finance current fiscal year operations is offset by a credit to deferred inflows of resources.

The amount available as an advance at June 30, 2014 was \$6,707,580 in the General Fund, \$485,884 in the Bond Retirement Fund, and \$248,918 in the Permanent Improvement Capital Projects Fund. The amount available as an advance at June 30, 2013 was \$4,914,546 in the General Fund, \$329,243 in the Bond Retirement Fund, and \$187,925 in the Permanent Improvement Capital Projects Fund.

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

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

	2013 Second Half Collections		2014 First Half Collections	
	Amount	Percent	Amount	Percent
Agricultural/Residential and Other Real Estate	\$ 569,045,550	96.90%	\$ 567,767,480	96.75%
Public Utility	18,209,200	3.10%	19,072,000	3.25%
Totals	<u>\$ 587,254,750</u>	<u>100.00%</u>	<u>\$ 586,839,480</u>	<u>100.00%</u>
 Tax Rate per \$1,000 of Assessed Valuation	 \$ 98.40		 \$ 100.70	

NOTE 9: SCHOOL DISTRICT INCOME TAXES

The District is the only school district in the State of Ohio with an enacted shared City/School income tax. The shared City income tax, enacted in 1994, is a 0.85 percent City voted income tax of which 0.47 percent is for the District and 0.38 percent for the City of Euclid. Employers are required to withhold income tax on compensation and remit the tax to the City of Euclid. Taxpayers are required to file an annual return with the City of Euclid. The City makes monthly distributions to the District after withholding amounts for administrative fees and estimated refunds. School District income tax revenue is credited to the General Fund.

NOTE 10: **RECEIVABLES**

Receivables at June 30, 2014 consisted of property taxes, compensation payments from a TIF agreement, accounts (rent, billings for user charged services, and student fees), intergovernmental grants and interest. All receivables are considered collectible in full due to the ability to foreclose for the nonpayment of taxes, the stable condition of State programs, and the current fiscal year guarantee of federal funds.

A summary of the principal items of intergovernmental receivables follows:

	Governmental Activities	Business-Type Activities
Public School Preschool	\$ 3,926	\$ -
Alternative Education Challenge	9,030	-
Race to the Top	5,605	-
IDEA, Special Education	15,789	-
Title I	162,104	-
ODE Reimbursement	1,145,911	-
SERS True-up	258,872	28,183
TIF	29,528	-
Other	6,323	-
Total Intergovernmental Receivables	\$ 1,637,088	\$ 28,183

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NOTE 11: CAPITAL ASSETS

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

	Balance 6/30/2013	Additions	Deletions	Balance 6/30/2014
<u>Governmental Activities</u>				
<i>Capital Assets, not being depreciated:</i>				
Land	\$ 2,052,789	\$ -	\$ -	\$ 2,052,789
Construction in Progress	630,841	243,474	(874,315)	-
Total Capital Assets, not being depreciated:	2,683,630	243,474	(874,315)	2,052,789
<i>Capital Assets, being depreciated:</i>				
Land Improvements	9,403,771	-	-	9,403,771
Building and Improvements	103,793,749	874,315	-	104,668,064
Furniture and Equipment	1,658,511	519,613	-	2,178,124
Vehicles	4,032,566	-	(83,227)	3,949,339
Total Capital Assets, being depreciated	118,888,597	1,393,928	(83,227)	120,199,298
Less Accumulated Depreciation:				
Land Improvements	(2,528,327)	(374,584)	-	(2,902,911)
Building and Improvements	(28,216,917)	(1,833,774)	-	(30,050,691)
Furniture and Equipment	(1,018,757)	(200,803)	-	(1,219,560)
Vehicles	(3,032,471)	(205,442)	83,227	(3,154,686)
Total Accumulated Depreciation	(34,796,472)	(2,614,603)	83,227	(37,327,848)
Total Capital Assets being depreciated, Net	84,092,125	(1,220,675)	-	82,871,450
Governmental Activities' Capital Assets, Net	\$ 86,775,755	\$ (977,201)	\$ (874,315)	\$ 84,924,239
<u>Business-Type Activities</u>				
<i>Capital Assets, being depreciated:</i>				
Building and Improvements	\$ 12,000	\$ -	\$ -	\$ 12,000
Furniture and Equipment	775,027	-	-	775,027
Total Capital Assets, being depreciated	787,027	-	-	787,027
Less Accumulated Depreciation:				
Building and Improvements	(1,650)	(300)	-	(1,950)
Furniture and Equipment	(148,523)	(49,824)	-	(198,347)
Total Accumulated Depreciation	(150,173)	(50,124)	-	(200,297)
Business-Type Activities' Capital Assets, Net	\$ 636,854	\$ (50,124)	\$ -	\$ 586,730

NOTE 11: CAPITAL ASSETS (CONTINUED)

Depreciation expense was charged to the governmental functions as follows:

Instruction:	
Regular	\$ 2,196,324
Special	3,198
Support Services:	
Instructional Staff	39,884
Administration	23,427
Operation and Maintenance of Plant	82,811
Pupil Transportation	193,468
Central	75,491
Total Depreciation Expense	\$ 2,614,603

NOTE 12: LONG-TERM OBLIGATIONS

The changes in the District's long-term obligations during fiscal year 2014 were as follows:

	Balance Outstanding 6/30/2013	Additions	Deletions	Balance Outstanding 6/30/2014	Amounts Due in One Year
<u>Governmental Activities</u>					
<i>General Obligation Bonds</i>					
<i>Energy Conservation Bonds</i>					
Series 2002 - \$2,715,000 - 2.50% to 6.00%	\$ 885,000	\$ -	\$ (205,000)	\$ 680,000	\$ 215,000
Series 2009 - \$1,253,000 - 5.25%	1,006,200	-	(69,400)	936,800	73,200
<i>School and Library Refunding, Series 2006 -</i>					
Serial Bonds - \$6,300,000 - 3.375 % to 5.00%	805,000	-	(360,000)	445,000	380,000
<i>Classroom Facilities and School Improvement Bonds, Series 2010</i>					
Capital Appreciation Bonds - \$499,828 - 18.35%	499,828	-	(499,828)	-	-
Bond Accretion	326,567	158,605	(485,172)	-	-
Unamortized Bond Premium	77,905	-	(77,905)	-	-
Term Bonds - \$11,210,000 - 6.15%	11,210,000	-	-	11,210,000	-
Term Bonds - \$10,190,000 - 6.30%	10,190,000	-	-	10,190,000	-
Sinking Fund Bonds - \$15,165,000 - 1.85%	15,165,000	-	(125,000)	15,040,000	1,120,000
<i>Total General Obligation Bonds</i>	40,165,500	158,605	(1,822,305)	38,501,800	1,788,200
<i>Other Long-Term Obligations</i>					
Permanent Improvement Tax Anticipation - \$6,500,000 - 4.25%	1,525,000	-	(750,000)	775,000	775,000
Permanent Improvement Tax Anticipation - \$4,185,000 - 3.15%	4,185,000	-	(360,000)	3,825,000	375,000
Unamortized Bond Premium	115,199	-	(52,787)	62,412	-
Claims and Judgments	1,241,926	6,998,456	(7,529,316)	711,066	546,801
Compensated Absences	1,633,097	303,688	(209,420)	1,727,365	633,075
<i>Total Other Long-Term Obligations</i>	8,700,222	7,302,144	(8,901,523)	7,100,843	2,329,876
Total Governmental Activities					
Long-Term Liabilities	\$ 48,865,722	\$ 7,460,749	\$ (10,723,828)	\$ 45,602,643	\$ 4,118,076
<u>Business-Type Activities</u>					
Compensated Absences	\$ 36,760	\$ 8,993	\$ (22,395)	\$ 23,358	\$ 9,647

NOTE 12: LONG-TERM OBLIGATIONS (CONTINUED)

General Obligation Bonds

In 2002, the District issued \$2,715,000 in energy conservation bonds for a fifteen year period to replace heating and lighting systems at several schools, with final maturity at December, 2016. The bonds will be retired from the bond retirement fund.

In 2006, the District issued \$6,300,000 in school and library refunding bonds and \$1,129,954 in capital appreciation bonds. These bonds were issued to provide for all future debt payments on the refunded portion of the 1995 school and library bonds. The maturity amount of outstanding school and library refunding bonds at June 30, 2013 is \$805,000. These bonds will mature in December 2015. The capital appreciation bonds matured during the fiscal year 2012. The maturity amount of the bonds was \$1,720,000. The remaining bonds will be retired from the bond retirement fund.

In 2009, the District issued \$1,253,000 in energy conservation improvement bonds for a fifteen year period. The bonds were issued to retire \$1,338,000 in bond anticipation notes that were provided to pay the costs of installations, modifications, and remodeling of school buildings to conserve energy. The bonds will be retired from the bond retirement fund.

On March 4, 2010, the District issued \$40,299,828 in voted general obligation bonds which comprised of serial, capital appreciation (deep discount), term, and sinking fund bonds in the amount of \$3,235,000, \$499,828, \$21,400,000 and \$15,165,000, respectively. The general obligation bonds were issued for the purpose of building new schools within the Euclid City Schools system. The bonds were issued with a twenty-eight year period with final maturity at January 15, 2038. The bond retirement fund will fund the annual debt service requirements on these bonds. The term and sinking fund bonds remained outstanding at June 30, 2014.

\$21,400,000 of the bonds issued on March 4, 2010, consisted of Build America Bonds (BABs) – Direct Payment. These bonds were created through the American Recovery and Reinvestment Act (ARRA) and offer federal subsidies through a refundable tax credit paid to state or local governmental issuers by the Treasury Department and the Internal Revenue Service in an amount equal to 35 percent of the total coupon interest payable to investors in these taxable bonds. The issuer of such bond shall be allowed a credit with respect to each interest payment under such bond which shall be a payable by the Secretary of the Treasury.

\$15,165,000 of the bonds issued on March 4, 2010, consisted of Qualified School Construction Bonds (QSCBs). In addition to the aforementioned BABs, the QSCBs were authorized by the federal government through the ARRA. These bonds were issued as tax credit bonds under which the bond holders receive federal tax credits in lieu of interest as a means to significantly reduce the issuer's interest cost.

The maturity amount of the capital appreciation bonds issued on March 4, 2010 is \$985,000. These bonds were originally sold at a discount of \$485,172, which is being accrued annually until the point of maturity of the bonds, which is January 15, 2014. For fiscal year 2014, \$485,172 was accreted for a total bond value of \$985,000. These bonds fully matured during the 2014.

NOTE 12: LONG-TERM OBLIGATIONS (CONTINUED)

The \$11,210,000 and \$10,190,000 term bonds maturing January 15, 2033 and January 15, 2038, respectively, are subject to optional mandatory redemption and extraordinary optional redemption requirements at a redemption price of 100 percent of the principal amount redeemed, plus accrued interest to the redemption date, on January 15 in the years (mandatory redemption dates) and in respective principal amounts as follows:

<u>Year</u>	<u>Amount</u>	<u>Year</u>	<u>Amount</u>
2027	\$ 1,415,000	2034	\$ 1,875,000
2028	1,475,000	2035	1,950,000
2029	1,535,000	2036	2,035,000
2030	1,595,000	2037	2,120,000
2031	1,660,000	Totals	<u>\$ 7,980,000</u>
2032	1,730,000		
Totals	<u>\$ 9,410,000</u>		

The remaining principal amounts of the two term bonds (\$1,800,000 and \$2,210,000) will mature at the stated maturity on January 15, 2033 and January 15, 2038, respectively.

The \$15,040,000 sinking fund bonds maturing January 15, 2026 are subject to extraordinary mandatory redemption and extraordinary optional redemption requirements on January 15 in the years (mandatory sinking fund dates) and in respective principal amounts as follows:

<u>Year</u>	<u>Amount</u>
2015	\$ 1,120,000
2016	1,145,000
2017	1,165,000
2018	1,190,000
2019	1,215,000
2020	1,240,000
2021	1,265,000
2022	1,290,000
2023	1,315,000
2024	1,340,000
2025	1,370,000
2026	1,385,000
Totals	<u>\$ 15,040,000</u>

Tax Anticipation Notes

In 2004, the District issued \$6,500,000 in long-term payable notes to provide for the renovation of the school buildings and other District improvements. These notes will be paid off over a ten year period of time with property taxes collected in the bond retirement fund.

NOTE 12: LONG-TERM OBLIGATIONS (CONTINUED)

In 2012, the District issued \$4,185,000 in long-term payable notes to provide for the renovation of the school buildings and other District improvements. These notes will be paid off over a ten year period of time with property taxes collected in the bond retirement fund.

Other Obligations

Compensated absences will be paid from the general fund and food service enterprise fund. See Note 16 for further details on the District’s liability for claims and judgments.

The District’s voted legal debt margin was \$19,987,980 with an unvoted debt margin of \$586,839 at June 30, 2014.

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

Fiscal Year Ending June 30,	Permanent Improvement Tax Anticipation Note		General Obligation Bonds		Totals	
	Principal	Interest	Principal	Interest *	Principal	Interest
2015	\$ 1,150,000	\$ 130,081	\$ 1,788,200	\$ 1,699,679	\$ 2,938,200	\$ 1,829,760
2016	385,000	102,611	1,512,100	1,674,056	1,897,100	1,776,667
2017	400,000	90,248	1,486,200	1,657,098	1,886,200	1,747,346
2018	410,000	77,490	1,275,600	1,646,719	1,685,600	1,724,209
2019	425,000	64,339	1,305,200	1,642,104	1,730,200	1,706,443
2020-2024	1,830,000	117,653	6,979,500	8,132,101	8,809,500	8,249,754
2025-2029	-	-	7,180,000	6,953,267	7,180,000	6,953,267
2030-2034	-	-	8,660,000	4,274,108	8,660,000	4,274,108
2035-2038	-	-	8,315,000	1,336,860	8,315,000	1,336,860
Totals	<u>\$ 4,600,000</u>	<u>\$ 582,422</u>	<u>\$ 38,501,800</u>	<u>\$ 29,015,992</u>	<u>\$ 43,101,800</u>	<u>\$ 29,598,414</u>

* - A portion of the interest has been netted against the federal subsidies provided by the federal government authorized through the American Recovery and Reinvestment Act (ARRA).

NOTE 13: OTHER EMPLOYEE BENEFITS

A. Compensated Absences

Employees earn vacation at rates specified under State of Ohio law and based on credited service. Clerical, technical, and maintenance and operations employees with one or more years of service are entitled to vacation ranging from 5 to 25 days. Employees with less than one year of service earn one vacation day per month worked, not to exceed five days. Unused vacation is not cumulative to the next year. Teachers do not earn vacation.

All employees are entitled to a sick leave credit equal to one and one-quarter days for each month of service (earned on a pro rata basis for less than full-time employees). This sick leave will either be absorbed by time off due to illness or injury or, within certain limitations, be paid to the employee upon retirement. The amount paid to an employee upon retirement is limited to one-quarter of the accumulated sick leave to a maximum payout of 40 to 60 days based on the collective bargaining agreements.

NOTE 14: PENSION PLANS

A. State Teachers Retirement System

The 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.

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 percent of earned compensation among various investment choices. The Combined Plan offers features of both the DC Plan and the DB Plan. In the Combined Plan, member contributions are allocated to investment choices by the member, and employer contributions are used to fund a defined benefit payment at a reduced level from the regular DB Plan. Contributions into the DC Plan and the Combined Plan are credited to member accounts as employers submit their payroll information to STRS Ohio, generally on a biweekly basis. DC and Combined Plan members may transfer to a different STRS Ohio retirement plan during their fifth year of membership. Eligible members who do not make a choice during the reselection period will permanently remain in their current 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 percent 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 percent. An additional one-tenth of a percent is added to the calculation of every year of earned Ohio service over 31 years (2.6 percent for 32 years, 2.7 percent for 33 years and so on) until 100 percent 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 percent instead of 2.2 percent. 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 percent 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.

NOTE 14: PENSION PLANS

A. State Teachers Retirement System

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 percent 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 percent of the original base amount for Defined Benefit Plan participants.

The Defined Benefit 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 hospitalization, physicians’ fees, prescription drugs and partial reimbursement of monthly Medicare Part B premiums. By Ohio law, health care benefits are not guaranteed.

A Defined Benefit 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 these active 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 Defined Benefit 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.

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 percent for members and 14 percent for employers.

Plan members were required to contribute 11 percent of their annual covered salaries for fiscal year 2014 and 10 percent of their annual covered salaries for fiscal years 2013 and 2012. The District was required to contribute 14 percent; 13 percent was the portion used to fund pension obligations.

The District’s contributions for pension obligations to STRS Ohio for the fiscal years ended June 30, 2014, 2013, and 2012 were \$4,259,628, \$4,174,937, and \$4,271,755, respectively; 78.97 percent of the required contribution has been made for fiscal year 2014 and 100 percent of the required contribution has been made for fiscal years 2013 and 2012.

STRS Ohio issues a publicly available, stand-alone financial report that includes financial statements and required supplementary information. That report may be obtained by writing to STRS Ohio, 275 E. Broad St., Columbus, Ohio 43215-3771 or by calling (888) 227-7877, or by visiting the STRS Ohio website at www.strsoh.org.

NOTE 14: **PENSION PLANS (CONTINUED)**

B. School Employees Retirement System

The District contributes to the School Employees Retirement System (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 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, www.ohsers.org, under *Employers/Audit Resources*.

Plan members are required to contribute 10 percent of their annual covered salary and the District is required to contribute 14 percent of annual covered payroll. The contribution requirement of plan members and employer 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 2014, the allocation to pension and death benefits is 13.10 percent. The remaining 0.90 percent of the 14 percent employer contribution rate is allocated to the Health Care and Medicare B Funds.

The District's contributions to SERS which were allocated for pension and death benefits for the fiscal years ended June 30, 2014, 2013 and 2012 were \$1,718,926, \$1,722,609, and \$1,770,360, respectively; 80.09 percent of the required contribution has been made for fiscal year 2014 and 100 percent of the required contribution has been made for fiscal years 2013 and 2012.

NOTE 15: **POST-EMPLOYMENT BENEFITS**

A. State Teachers Retirement System

STRS Ohio administers a pension plan that is comprised of: a defined benefit plan; a self-directed defined contribution plan; and a combined plan which is a hybrid of the defined benefit and defined contribution plan.

Ohio law authorizes 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 Section 3307 of the Ohio 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 benefit recipients, 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 Financial Annual Report by visiting www.strsoh.org or by requesting a copy by calling toll-free 1-888-227-7877.

NOTE 15: **POST-EMPLOYMENT BENEFITS (CONTINUED)**

A. **State Teachers Retirement System (Continued)**

Under Ohio law, funding for post-employment health care may be deducted from employer contributions. Of the 14 percent employer contribution rate, 1 percent of covered payroll was allocated to post-employment health care for the years ended June 30, 2014, 2013 and 2012. The 14 percent employer contribution rate is the maximum rate established under Ohio law. For the District, these amounts equaled \$327,664, \$321,149, and \$328,597 for fiscal years 2014, 2013, and 2012, respectively; 78.97 percent of the required contribution has been made for fiscal year 2014 and 100 percent of the required contribution has been made for fiscal years 2013 and 2012.

B. **School Employees Retirement System**

In addition to a cost-sharing, multiple-employer defined benefit pension plan, the School Employees Retirement System (SERS) administers two post-employment 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 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 per month 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 years 2014, 2013, and 2012, the actuarially required allocation was 0.76 percent, 0.74 percent, and 0.75 percent. For the District, contributions for the years ended June 30, 2014, 2013, and 2012, were \$99,724, \$97,308, and \$104,549, respectively; 80.09 percent of the required contribution has been made for fiscal year 2014 and 100 percent of the required contribution has been made for fiscal years 2013 and 2012.

Health Care Plan – Ohio Revised Code 3309.375 and 3309.69 permit SERS to offer health care benefits to eligible retirees and beneficiaries. SERS' Retirement Board reserves the right to change or discontinue any health plan or program. SERS offers several types of health plans from various vendors, including HMO's, PPO's, Medicare Advantage, and traditional indemnity plans. A prescription drug program is also available to those who elect health coverage. SERS employs two third-party administrators and a pharmacy benefit manager to manage the self-insurance and prescription drug plans, respectively.

The Ohio Revised Code provides the statutory authority to fund SERS' post-employment benefits through employer contributions. Active members do not make contributions to the post-employment benefit plans.

NOTE 15: POST-EMPLOYMENT BENEFITS (CONTINUED)

B. School Employees Retirement System (Continued)

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 percent contribution to the Health Care Fund. For the year ended June 30, 2014, the health care allocation is 0.14 percent. 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 percent of that employer’s SERS covered payroll; nor may SERS collect in aggregate more than 1.5 percent of the total statewide SERS covered payroll for the health care surcharge. For fiscal year 2014, the minimum compensation level was established at \$20,250. The surcharge, added to the unallocated portion of the 14 percent employer contribution rate is the total amount assigned to the Health Care Fund. At June 30, 2014, 2013, and 2012 the health care allocations were 0.14 percent, 0.16 percent, and 0.55 percent, respectively. For the District, the amount contributed to fund health care benefits, including the surcharge, during the 2014, 2013 and 2012 fiscal years equaled \$213,703, \$207,850, and \$248,837, respectively; 80.09 percent of the required contribution has been made for fiscal year 2014 and 100 percent of the required contribution has been made for fiscal years 2013 and 2012.

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 upon 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*.

NOTE 16: RISK MANAGEMENT

A. Property and Liability

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 Hyland Administrative Services – Ohio School Plan for fleet and liability insurance, with Travelers Insurance for boiler and machinery, and with Hyland Administrative Services – Ohio School Plan for property and inland marine coverage. Coverages provided were as follows:

Building, Contents, Boiler and Machinery Contents (\$10,000 deductible)	\$ 218,104,549
Crime Insurance (\$500 deductible)	50,000
Automobile Liability (\$250 Comprehensive deductible/ \$500 Collision deductible)	1,000,000
Uninsured Motorists	50,000
General Liability (per occurrence)	1,000,000
General Liability (total per year)	2,000,000

Settled claims have not exceeded this commercial coverage in any of the past three years. There has been no significant change from prior year’s coverage.

NOTE 16: **RISK MANAGEMENT (CONTINUED)**

B. Self-Insurance Program

The self-insurance program for health care has been administered by Medical Mutual of Ohio since January, 2001. Medical Mutual of Ohio began administering the program in January, 2001. Payments are made to Medical Mutual of Ohio for the actual amount of claims processed, monthly stop-loss premiums, and administrative charges. Operating revenues of the fund consist of payments from other funds and are based on self-insurance losses, policy stop-loss premiums, and other operating expenses.

The claims liability of \$461,000 reported in the fund at June 30, 2014 was estimated by the third party administrator and is based on the requirements of GASB Statement No. 30, which requires that a liability for unpaid claims costs, including estimates of costs relating to incurred but not reported claims, be reported. The estimate was not affected by incremental claim adjustment expenses and does not include other allocated or unallocated claim adjustment expenses (GASB Statement No. 30). Changes in the fund's claims liability amount for the fiscal years ended June 30, 2013 and 2014 were:

	<u>Beginning of Year</u>	<u>Current Year Claims</u>	<u>Claim Payments</u>	<u>End of Year</u>
June 30, 2013	\$ 957,100	\$ 6,887,561	\$ (6,986,161)	\$ 858,500
June 30, 2014	858,500	6,531,287	(6,928,787)	461,000

The above claim payments include management fees in the amount of \$627,681.

C. Workers' Compensation Program

The District participates in the State Workers' Compensation group retrospective rating and payment system. The plan involves the payment of a minimum premium for administrative services and stop loss coverage plus the actual claim costs for employees injured. The program for workers' compensation is administered by Comp Management Inc. Payments are made directly to the Ohio Bureau of Workers' Compensation for actual claims processed. Operating revenues of the fund consist of payments from other funds and earnings on the investing of these funds that are based on self-insurance losses, policy stop-loss premiums, and other operating expenses.

The claims liability of \$250,066 reported in the fund at June 30, 2014 was estimated by the Bureau of Workers Compensation and is based on the requirement of Governmental Standards Board Statement No. 30, which requires that a liability for unpaid claim costs, including estimates of costs relating to incurred but not reported claims, be reported. Changes in the fund's current claims liability amount for the fiscal years ended June 30, 2013 and 2014 were:

	<u>Beginning of Year</u>	<u>Current Year Claims</u>	<u>Claim Payments</u>	<u>Interest Earned</u>	<u>End of Year</u>
June 30, 2013	\$ 545,347	\$ 278,085	\$ (440,056)	\$ 50	\$ 383,426
June 30, 2014	383,426	467,169	(600,529)	-	250,066

NOTE 17: JOINTLY GOVERNED ORGANIZATIONS

Ohio Schools' Council Association (Council) – The Council is a jointly governed organization among 179 school districts, educational service centers, joint vocational districts, and Developmental Disabilities boards in 35 northern Ohio counties. The jointly governed organization was created by various entities for the purpose of saving money through volume purchases. Each entity supports the Council by paying an annual participation fee. Each district member's superintendent serves as a representative of the Assembly. The Assembly elects five of the Council's Board members and the remaining four are representatives of the Greater Cleveland School Superintendents' Association. The Council operates under a nine-member Board of Directors (the Board). The Board meets monthly September through June. The Board appoints an Executive Director who is responsible for receiving and disbursing funds, investing available funds, preparing financial reports for the Board and Assembly and carrying out such other responsibilities as designated by the Board. In fiscal year 2014, the District paid \$5,267 to the Council. Financial information can be obtained by contacting William J. Zelei, the Executive Director of the Ohio Schools' Council at 6133 Rockside Road, Suite 10, Independence, Ohio 44131.

The District participates in the Council's prepaid natural gas program. The Council provides participating school districts the ability to purchase natural gas at reduced rates, if the school districts will commit to participating for a twelve year period. There are currently 148 districts in the Program. The participants make monthly payments based on estimated usage. Each September, these estimated payments are compared to their actual usage for the year (July to June). Districts that paid more in estimated billings than their actual billings are issued credits on future billings beginning in September until the credits are exhausted and districts that did not pay enough on estimated billings are invoiced for the difference on the September monthly estimated billing.

The District also participates in the Council's electric purchase program (Power4Schools program). In June, 2011, the Council partnered with the Ohio School Boards Association (OSBA), the Ohio Association of School Business Officials (OASBO), and the Buckeye Association of School Administrators (BASA) to negotiate with First Energy Solutions for electric generation savings. The rate is \$0.0528 per kWh for all district facilities (including non-classroom facilities) and is guaranteed for the first three years of the program. Similar savings, depending on market conditions, will continue for the remaining five and a half years of the program. There are two hundred fifty-one (251) districts participating in this program.

NOTE 18: RELATED ORGANIZATION

Euclid Public Library – The Euclid Public Library is a distinct political subdivision of the State of Ohio created under Chapter 3375 of the Ohio Revised Code. The Library is governed by a Board of Trustees appointed by the Euclid City School District's Board of Education. The Board of Trustees possesses its own contracting and budgeting authority, hires and fires personnel and does not depend on the District for operational subsidies. Although the District serves as the taxing authority and may issue tax related debt on behalf of the Library, its role is limited to a ministerial function. The determination to request approval of a tax, the rate, and the purpose are discretionary decisions made solely by the Board of Trustees. Financial information can be obtained from the Euclid Public Library at 631 East 222nd Street, Euclid, Ohio 44123.

NOTE 19: **CONTINGENCIES**

A. Grants

The District received financial assistance from Federal and State agencies in the form of grants. The disbursement 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.

B. Litigation

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

NOTE 20: **INTERFUND TRANSACTIONS**

A. Interfund Balances

On June 30, 2014, interfund balances on fund financial statements consist of the following:

	Receivable	Payable
<i>Major Governmental Fund</i>		
General Fund	\$ 508,997	\$ -
<i>Nonmajor Governmental Funds</i>		
Special Revenue Funds	-	255,906
Capital Projects Funds	-	250,091
<i>Nonmajor Proprietary Fund</i>		
Enterprise Fund	-	3,000
Total Interfund Balances	\$ 508,997	\$ 508,997

Monies were advanced from the general fund to various nonmajor governmental funds to cover operating expenditures until additional monies are received. These interfund balances will be repaid once the anticipated revenues are received.

NOTE 20: **INTERFUND TRANSACTIONS (CONTINUED)**

B. Interfund Transfers

On June 30, 2014, interfund transfers on fund financial statements consist of the following:

	Transfers In	Transfers Out
<i>Major Funds</i>		
General	\$ -	\$ 307,217
<i>Nonmajor Governmental Fund</i>		
Special Revenue Funds	250,169	-
Total Nonmajor Governmental Funds	250,169	-
<i>Nonmajor Enterprise Fund</i>		
Total Interfund Transfers	\$ 307,217	\$ 307,217

Transfers were made to provide additional resources for current operations. The interfund transfers between governmental activities were eliminated on the entity-wide financial statements.

NOTE 21: **SET-ASIDE REQUIREMENTS**

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 the end of the fiscal year 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. In prior years, the District was also required to set aside money for budget stabilization. At June 30, 2014, only the unspent portion of certain workers' compensation refunds continues to be a required set-aside. As a result of the implementation of GASB Statement No. 54, the District's budget stabilization amount has been classified as unassigned fund balance. This fund balance classification is necessary since the District does not provide specific circumstances and these circumstances could occur routinely.

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

	Capital Improvements	Budget Stabilization
Set-Aside Reserve Balance as of June 30, 2013	\$ -	\$ 476,511
Current Year Set-Aside Requirements	896,409	-
Qualifying Disbursements	(2,819,587)	-
Totals	(1,923,178)	476,511
Set-Aside Balance Carried Forward to Future Fiscal Years	\$ -	\$ 476,511
Set-Aside Reserve Balance as of June 30, 2014	\$ -	\$ 476,511

NOTE 21: SET-ASIDE REQUIREMENTS (CONTINUED)

Although the District had qualifying disbursements during the year that reduced the capital improvements set-aside amount below zero, these extra amounts may not be used to reduce the set-aside requirement in future fiscal years.

NOTE 22: OTHER COMMITMENTS

The District utilizes encumbrance accounting as part of its budgetary controls. Encumbrances outstanding at year-end are components of fund balance for subsequent year expenditures and may be reported as part of restricted, committed, or assigned classifications of fund balance. As of June 30, 2014, the District's commitments for encumbrances in the governmental funds were as follows:

	<u>Encumbrances Outstanding</u>
General	\$ 1,272,742
Nonmajor Governmental	<u>698,187</u>
Total	<u><u>\$ 1,970,929</u></u>

NOTE 23: SUBSEQUENT EVENT

In September 2014, the District refunded the Build America Bonds (BABs) that were originally issued in March 2010. These refunded bonds will provide savings over the life of bonds in the future debt service requirements.

**EUCLID CITY SCHOOL DISTRICT
CUYAHOGA COUNTY, OHIO
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2014**

Federal Grantor/ Pass-Through Grantor/ Program or Cluster Title	Federal CFDA Number	Receipts	Non-Cash Receipts	Expenditures	Non-Cash Expenditures
<u>U.S. Department of Agriculture</u>					
<i>Passed through Ohio Department of Education</i>					
Child Nutrition Cluster:					
Child Care - Summer School Meals	10.559	\$ 55,718	\$ 0	\$ 55,718	\$ 0
National School Breakfast Program	10.553	407,199	0	407,199	0
National School Lunch Program	10.555	1,896,764	164,530	1,896,764	164,530
Total Child Nutrition Cluster		<u>2,359,681</u>	<u>164,530</u>	<u>2,359,681</u>	<u>164,530</u>
State Administrative Expenses for Child Nutrition	10.560	4,105	0	4,105	0
Total U.S. Department of Agriculture		<u>2,363,786</u>	<u>164,530</u>	<u>2,363,786</u>	<u>164,530</u>
<u>U.S. Department of Defense</u>					
<i>Direct Programs:</i>					
Junior ROTC	12.000	42,615	0	42,615	0
Total U.S. Department of Defense		<u>42,615</u>	<u>0</u>	<u>42,615</u>	<u>0</u>
<u>U.S. Department of Education</u>					
<i>Passed through Ohio Department of Education</i>					
Adult Basic Education	84.002	92,195	0	88,819	0
Special Education Cluster:					
Special Education Grants	84.027	1,299,603	0	1,338,025	0
Preschool Grant	84.173	27,682	0	22,775	0
Total Special Education Cluster		<u>1,327,285</u>	<u>0</u>	<u>1,360,800</u>	<u>0</u>
Title I, Part A	84.010	2,729,327	0	2,424,741	0
ARRA - Race to the Top	84.395	421,029	0	294,042	0
Improving Teacher Quality	84.367	220,443	0	220,443	0
<i>Passed through Cuyahoga County</i>					
Limited English Proficiency	84.365	6,819	0	12,756	0
Total U.S. Department of Education		<u>4,797,098</u>	<u>0</u>	<u>4,401,601</u>	<u>0</u>
TOTAL EXPENDITURES OF FEDERAL AWARDS		<u>\$ 7,203,499</u>	<u>\$ 164,530</u>	<u>\$ 6,808,002</u>	<u>\$ 164,530</u>

See accompanying notes to Schedule of Expenditures of Federal Awards.

**EUCLID CITY SCHOOL DISTRICT
CUYAHOGA COUNTY, OHIO
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS - CASH
JUNE 30, 2014**

NOTE 1: **BASIS OF PRESENTATION**

The accompanying Schedule of Expenditures of Federal Awards includes the federal grant activity of Euclid City School District and is presented on the cash basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

NOTE 2: **NONCASH SUPPORT**

The District receives noncash support in the form of food subsidies from the National School Lunch Program (NSLP), CFDA #10.555. The value of the food subsidies is determined by using the fair market value of the food items as quoted by local food suppliers.

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**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING
AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF
FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS**

Board of Education
Euclid City School District
Euclid, Ohio

The Honorable Dave Yost
Auditor of State
State of Ohio

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, business-type activities, each major fund, and the aggregate remaining fund information of the Euclid City School District, Cuyahoga County, Ohio, as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the Euclid City School District, Ohio's basic financial statements and have issued our report thereon dated January 27, 2015.

Internal Control Over Financial Reporting

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

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

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

Compliance and Other Matters

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

Purpose of This Report

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

James G. Zupka,
CPA, President

Digitally signed by James G. Zupka, CPA,
President
DN: cn=James G. Zupka, CPA, President,
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James G. Zupka, CPA, Inc.
Certified Public Accountants

January 27, 2015

JAMES G. ZUPKA, C.P.A., INC.

*Certified Public Accountants
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**REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM
AND ON INTERNAL CONTROL OVER COMPLIANCE
REQUIRED BY OMB CIRCULAR A-133**

Board of Education
Euclid City School District
Euclid, Ohio

The Honorable Dave Yost
Auditor of State
State of Ohio

Report on Compliance for Each Major Federal Program

We have audited the Euclid City School District, Cuyahoga County, Ohio's compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the Euclid City School District, Ohio's major federal programs for the year ended June 30, 2014. The Euclid City School District, Ohio's major federal programs are identified in the Summary of Auditors' Results section of the accompanying Schedule of Findings and Questioned Costs.

Management's Responsibility

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

Auditor's Responsibility

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

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

Opinion on Each Major Federal Program

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

Other Matters

The results of our auditing procedures disclosed an instance of noncompliance, which is required to be reported in accordance with OMB Circular A-133 and which is described in the accompanying Schedule of Findings and Questioned Costs as **Finding No. 2014-001**. Our opinion on each major federal program is not modified with respect to this matter.

The District's response to the noncompliance finding identified in our audit is described in the accompanying Schedule of Findings and Questioned Costs. The District's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

Report on Internal Control Over Compliance

Management of the Euclid City School District, Ohio, is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the Euclid City School District, Ohio's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Euclid City School District, Ohio's internal control over compliance.

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

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, we identified a certain deficiency in internal control over compliance that we consider to be a significant deficiency which is described in the accompanying Schedule of Findings and Questioned Costs as **Finding No. 2014-001**.

The District's response to the internal control over compliance finding identified in our audit is described in the accompanying Schedule of Findings and Questioned Costs. The District's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

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

James G. Zupka,
CPA, President
James G. Zupka, CPA, Inc.
Certified Public Accountants

Digitally signed by James G. Zupka, CPA,
President
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o=James G. Zupka, CPA, Inc., ou=Accounting,
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January 27, 2015

**EUCLID CITY SCHOOL DISTRICT
 CUYAHOGA COUNTY, OHIO
 SCHEDULE OF FINDINGS AND QUESTIONED COSTS
 OMB CIRCULAR A-133 & §.505
 JUNE 30, 2014**

1. SUMMARY OF AUDITOR'S RESULTS

2014(i)	Type of Financial Statement Opinion	Unmodified
2014(ii)	Were there any material control weaknesses reported at the financial statement level (GAGAS)?	No
2014(ii)	Were there any significant deficiencies in internal control reported at the financial statement level (GAGAS)?	No
2014(iii)	Was there any reported material noncompliance at the financial statement level (GAGAS)?	No
2014(iv)	Were there any material internal control weaknesses reported for major federal programs?	No
2014(iv)	Were there any significant deficiencies in internal control reported for major federal programs?	Yes
2014(v)	Type of Major Programs' Compliance Opinion:	Unmodified
2014(vi)	Are there any reportable findings under .510(a)?	Yes
2014(vii)	Major Programs (list): Special Education Cluster - CFDA #84.027 and #84.173 ARRA - Race to the Top - CFDA #84.395 Title I, Part A - CFDA #84.010	
2014(viii)	Dollar Threshold: Type A\B Program	Type A: \$300,000 or more Type B: All others less than \$300,000
2014(ix)	Low Risk Auditee?	No

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

None.

**EUCLID CITY SCHOOL DISTRICT
CUYAHOGA COUNTY, OHIO
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
OMB CIRCULAR A-133 & §.505
JUNE 30, 2014
(CONTINUED)**

3. **FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS**

Finding 2014-001 - Noncompliance/Significant Deficiency - Cash Requests

CFDA Title and Number: CFDA #84.395 - ARRA-Race to the Top, Recovery Act Funded
Federal Award Year: 2013-2014
Federal Agency: U.S. Department of Education
Pass-Through Agency: Ohio Department of Education

Condition/Criteria

During our testing of cash requests for federal grant funds, we noted that, in March 2014, for the Race to the Top award (CFDA #84.395), an advance cash request was not obligated within 30 days of receipt and the District had a cash balance on hand, which exceeded the amount expended within the required time frame.

Cause/Effect

Cash requests were not made timely and advances were not expended within the period of time for which they were requested.

Recommendation

We recommend that the District establish and implement procedures to minimize the time between the transfer of federal funds and the disbursements of funds for program purposes. This will strengthen controls over cash and allow the District to remain in compliance with specific Federal program requirements.

Client Response

The District has made improvements to reduce holding cash for periods longer than allowed by federal guidelines and will comply with the specific federal program requirements.

**EUCLID CITY SCHOOL DISTRICT
 CUYAHOGA COUNTY, OHIO
 SCHEDULE OF PRIOR AUDIT FINDINGS AND RECOMMENDATIONS
 FOR THE FISCAL YEAR ENDED JUNE 30, 2014**

Number	Finding Summary	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding no Longer Valid; Explain
2013-001	Noncompliance Citation/Significant Deficiency - Cash Requests	Not Corrected - Repeated as Finding 2014-001

Management letter recommendations have been corrected, repeated, or procedures instituted to prevent occurrences in this audit period.



Dave Yost • Auditor of State

EUCLID LOCAL SCHOOL DISTRICT

CUYAHOGA COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
MAY 7, 2015**